

**SARS IN CHINA: IMPLICATIONS FOR INFORMATION CONTROL,  
INTERNET CENSORSHIP, AND THE ECONOMY**

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**HEARINGS**  
BEFORE THE  
**U.S.-CHINA ECONOMIC AND SECURITY  
REVIEW COMMISSION**  
ONE HUNDRED EIGHTH CONGRESS  
FIRST SESSION  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

**HEARING**  
JUNE 5, 2003

**TECHNICAL BRIEFING**  
DECEMBER 11, 2002

**HEARING**  
SEPTEMBER 23, 2002

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The Commission was created in October 2000 by the Floyd D. Spence National Defense Authorization Act for 2001 sec. 1238, Public Law 106-398, 114 STAT. 1654A-334 (2000) (codified at 22 U.S.C. sec. 7002 (2001)), as amended, and the "Consolidated Appropriations Resolution of 2003," Public Law 108-7, dated February 20, 2003. Public Law 108-7 changed the Commission's title to U.S.-China Economic and Security Review Commission. The Commission's full charter is available via the World Wide Web: <http://www.uscc.gov>.

The Commission's Statutory Mandate begins on page 235.

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

JULY 3, 2003

The Honorable TED STEVENS,  
*President Pro Tempore of the U.S. Senate, Washington, D.C. 20510.*  
The Honorable J. DENNIS HASTERT,  
*Speaker of the House, Washington, D.C. 20515.*

DEAR SENATOR STEVENS AND SPEAKER HASTERT:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the second volume of our hearings, those conducted by the Commission from September 23, 2002 through June 5, 2003, pursuant to P. L.106-398 (October 30, 2000), as amended by P. L. 107-67 and 108-7.

As you know, the U.S.-China Economic and Security Review Commission is mandated by Congress to examine, among other areas, media control in China and to make recommendations to the Congress on this issue where appropriate.

On June 5, 2003 the Commission held a hearing on China's media and information control system, with particular emphasis on Internet censorship. As demonstrated in response to the recent SARS outbreak in China, such censorship is pervasive and continuous, and the Chinese government puts a high priority on its control mechanisms. The hearing reinforces our understanding that promising technologies recently developed by U.S. companies demonstrate the capability of breaking through this Chinese Internet firewall with a high degree of confidence, based on actual performance over the last year. We believe that the provision of additional modest financial resources in FY 2004 to these efforts could result in dramatic increases in the number of users in China who would be able to access uncensored information on the Internet. We have been told by U.S. Government officials working in this area, as well as knowledgeable private entrepreneurs involved in Internet anti-censorship efforts, that such efforts could result in reaching critical thresholds of Chinese Internet users whereby the information control system of the Chinese government would be greatly degraded. Some U.S. firms working on such initiatives have told us that this level of resources could allow them to expand uncensored Internet access to some 1.5-2 million Chinese Internet users. Authorizing legislation—the "Global Internet Freedom Act"—has been introduced on a bipartisan basis in both chambers and is aimed at enhancing the U.S. government's resources and capabilities to promote the development and use of technologies to allow access to the worldwide web by users in closed societies throughout the world.

On December 11, 2002, the commission took testimony from Ms. HE Qinglian, a well-known dissident who emigrated to the U.S. in 2001, and Mr. CHENG Xiaonong, Princeton University, to discuss "Corruption's Impact on Governance, Politics, and Policies" in China. The third hearing included in this document during this reporting period focused on "Chinese Leadership Succession and Its Implications."

To date, the Commission has held twelve hearings and the Commission published the first volume of its record of public hearings, which were enormously valuable in informing the Commission and the public on the evolving relationship between the United States and the China, particularly in the economic arena. We plan to publish quarterly reports and transcripts of our hearings. Congress mandated nine specific areas for the Commission's work in 2003-2004, including proliferation practices, economic reforms and U.S. economic transfers, energy, role of U.S. capital markets, corporate reporting, regional economic and security impacts, U.S.-China bilateral programs, WTO compliance, and media control by the Chinese government. The congressional mandate specifying the areas of work and study the Commission will focus on begins on page 235. The Commission plans to issue its second annual report to Congress in April 2004.

Yours truly,



C. Richard D'Amato  
*Vice Chairman*



Roger W. Robinson, Jr.  
*Chairman*



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# **SARS IN CHINA: IMPLICATIONS FOR INFORMATION CONTROL, INTERNET CENSORSHIP, AND THE ECONOMY**

**THURSDAY, JUNE 5, 2003**

U.S.-CHINA ECONOMIC & SECURITY REVIEW COMMISSION,  
*Washington, D.C.*

The Commission met in Room 124, Dirksen Senate Office Building, Washington, D.C. at 9:30 a.m., Roger W. Robinson, Jr. and C. Richard D'Amato (Hearing Co-Chairs), presiding.

OPENING REMARKS OF CHAIRMAN ROGER W. ROBINSON, JR.

We would like to open our hearing today on "SARS in China: Implications for Media Control and the Economy." We are very pleased to have with us Senator Conrad Burns, who accompanied Senate Majority Leader Bill Frist on his delegation's visit in April to China, Taiwan, Japan, and South Korea. That delegation, as many of you know, met with President Hu Jintao and other Chinese leaders right at the time that they were acknowledging the severity of the SARS outbreak. Senator Burns is a senior member of Senate Appropriations and Commerce Committees.

[The statement follows:]

PREPARED STATEMENT OF CHAIRMAN ROGER W. ROBINSON, JR.

Chairman ROBINSON. Welcome to the first of what we expect will be a full slate of hearings of the U.S.-China Economic and Security Review Commission during the 108th Congress. I am pleased to be joined by the Vice Chairman of the Commission, who is also co-chair of this hearing, Dick D'Amato, and my fellow Commissioners. I want to especially welcome and recognize Ambassador Robert Ellsworth, one of two new members of the Commission. The other, Carolyn Bartholemew, is with us in spirit even though, regrettably, she is out of the country today.

We are particularly pleased that Senators Bill Nelson, Conrad Burns, and Jon Kyl and Representative Chris Cox are able to join us this morning as we examine a timely and interesting set of questions that have been brought into focus by the recent SARS crisis in China. Senators Nelson and Burns had the unique opportunity to meet with the Chinese leadership in April just at the time they were acknowledging the severity of the SARS outbreak. Senator Kyl and Representative Cox are long-time champions of media freedom as demonstrated by their sponsorship of the Global Internet Freedom Act. Representative Cox will be joining us around 11:00 a.m. during our first panel.

For the world, SARS is fundamentally a global public health challenge, one that we must confront and overcome together. But for China, effectively fighting the spread of SARS has become more than a question of protecting the health of its population. The spread of SARS has placed heavy stress on a political system unaccustomed to being held to account, secretive about its internal information flows and uncomfortable with open questioning, debate and criticism of its policies.

I should note that Congress established the U.S.-China Economic & Security Review Commission in October of 2000 for the purpose of monitoring and investigating issues related to the national security dimensions of the bilateral economic trade and financial relationship between the U.S. and the People's Republic of China.

We are charged with providing an annual report to Congress with our findings and recommendations, for legislative or administrative action. We made our first such report to the Congress in July of last year. Since then—despite our nation's continuing focus on the global war against terror, and the problem of weapons of mass destruction—developments in the world have not, in my view, diminished in any way the importance of the subjects we are charged to evaluate. China—with its continued rapid growth, unmatched level of inward investment and further embedded in the web of global commerce and finance—is a country to be reckoned with economically. Moreover, China's economic growth and technological progress are closely linked to its military modernization and political influence in the region. China's proliferation policy and practices—a perennial cause for concern—remain in sharp focus partly due to the burgeoning nuclear crisis on the Korean Peninsula. A big question is: will China be part of the proliferation problem or the proliferation solution in the months ahead? Thus it is fair to say that the events in China matter greatly to the United States economy and national security today, and we as a country need to continue to monitor closely the dynamics of these implications.

In February of this year, the Congress provided us further guidance for our work. Our new legislative mandate reiterates the need for us to focus on such key issues as China's compliance with WTO obligations, its proliferation policies and practices, the connection between China's economic reforms and US economic transfers to China, China's role in the world energy sector, China's access to US capital markets, and the nature and scope of US investment in China.

Specific to today's hearing, our revised charter also tasks the Commission with evaluating Chinese government efforts to influence and control perceptions of the United States and its policies through the Internet, the Chinese print and electronic media, and internal propaganda. We are also directed to assess China's fiscal strength to address potential future challenges to internal stability and the likelihood of externalization of such problems, and to assess China's economic impact on the region, including economic and security relations across the Taiwan Strait. The unfolding SARS situation has brought into greater focus, I think, traits of the Chinese system in all three areas: media control, fiscal strength, and regional economic impact.

Chairman ROBINSON. For more on the specifics of how our day will unfold, let me turn the microphone over to my esteemed hearing co-chair, the Commission's Vice Chairman, Dick D'Amato.

Mr. Vice Chairman, do you have any thoughts or remarks?

#### OPENING REMARKS OF VICE CHAIRMAN C. RICHARD D'AMATO

Vice Chairman D'AMATO. Yes. We are actually waiting for the arrival of Senator Nelson, as well, who also traveled with the Majority Leader on this trip. I want to welcome Senator Burns, a senior member of the Appropriations Committee.

I would like to just point out that the legislation that passed in the Appropriations Committee this last time directed this Commission to explore nine key areas this year. One of those areas is Chinese Government control of the media and the Internet, and specifically to take a look at how they are manipulating or controlling Chinese public opinion and attitude toward the United States.

So this whole SARS thing really leads to the question of control, how much control, openness, did their control system break down, what are the implications in breaching the so-called Internet firewall, which the Chinese regime has erected around their country. We know there are new technologies that we're going to have testimony on today, that are breaching that firewall, and individual Chinese can now access the worldwide Internet, bypassing that control mechanism.

How far they have gone in that, how far we can continue to push these companies to do that, is an important national question for us, so something that we are particularly interested in, and the Congress directed us to look into. So we're very interested in your

impressions, Senator Burns, as to the attitude of the leadership when you met with them, their frankness, openness, whether they really seem to be forthcoming in a new way, and what your impressions are of your visit with them.

[The statement follows.]

PREPARED STATEMENT OF VICE CHAIRMAN C. RICHARD D'AMATO

Vice Chairman D'AMATO. Thank you, Roger. I also welcome Senator Nelson and Senator Burns, who have recently been to China traveling with the Majority Leader on official Senate business, and Senator Kyl and Representative Cox, principal supporters of the Global Internet Freedom Act.

Our topic is timely. The Chinese Government's initial denial—to its own people and the world—that it faced a serious SARS problem brought condemnation and criticism from many quarters. Not least from China's neighbors and international public health officials who found themselves battling an unknown disease without the benefit of full access to information from its country of origin.

Ordinary Chinese citizens have been eloquent in their expressions of mistrust of their government. In late April one million voted with their feet when they vacated the capital soon after the government revealed that the number of SARS cases in Beijing had been seriously underreported. Before that, cell phone text messaging volume broke all prior records as citizens frantically sought sources of reliable information on the spread of this new disease. Since the April 20th dismissal from office of China's Health Minister and Beijing's Mayor, the Chinese Government—led by President Hu and Premier Wen—have ordered full and accurate reporting of SARS cases in government channels. China now reports a steep decline in new SARS cases and deaths from the disease. What degree of confidence should we have in these new numbers?

The basic question is: What does the public health problem of Severe Acute Respiratory Syndrome-SARS-mean for China's future, and what does it reveal about China's present? Within this Commission's mandate of assessing Chinese media control efforts and economic development, there are many questions needing exploration. I note with disappointment the account in the Washington Post a couple of days ago that the Chinese government is back-pedaling furiously, denying the problem again and asserting that everything is under control.

We will examine the strains put on China's political system by the SARS public health challenge. How effectively has the new leadership responded? What does the SARS episode reveal about leadership dynamics and about public confidence in the state apparatus? What does it mean for long-term openness in China?

There is a fundamental contradiction in the PRC Government's approach to information which has been brought into sharper focus during the SARS epidemic. China continues to build out rapidly a modern telecommunications infrastructure, involving billions of dollars of investment and millions of new internet and cell phone users each year. Information technology is vital to China's success in a densely-connected global production system. China is more and more "wired" at home and "connected" abroad. Yet in the face of this remarkable expansion of "IT" and business information, the Chinese Communist Party continues to attempt strict control on broadly-defined categories of "sensitive information" and "political expression."

Those controls may tighten or loosen depending on conditions; but the Party clearly wants to tightly control propaganda and "thought work". We will hear about China's "internet police" and the jamming and blocking of broadcasts and websites and consider whether these measures are keeping up with anti-censorship technologies and the inflow of independent sources of information. We will look at how media controls and secrecy exacerbated the SARS outbreak, but also assess how "new media" contributed to exposing the government's cover-up. We will also examine how the US Government and non-government actors are working to facilitate broader access by the Chinese people to reliable, uncensored news and information. There are exciting new developments in this area which promise a permanent breach of the "Great Firewall" the government has erected around China.

We will also look at whether Chinese media organizations are being more assertive or not, in light of SARS. And at the political pressure faced by independent-minded journalists and editors.

Finally, we will consider the economic implications of the SARS situation for China. We will try to assess the direct costs to society of the disease itself and of longer-term investments that need to be made to China's public health infrastructure. We will hear from experts on the economic and business outlook for China and the region. Are there new risks inherent in doing business in China? Has foreign

investor confidence been shaken by SARS and by fears that future SARS-like crises will not be met with effective government action? Is the "SARS effect"—with the disease now apparently under control in most regions—going to be just a blip on the economic charts, having little impact on China's economic growth and no transformational effect on its economic system? Or, if the disease continues to spread, or resurges in the fall, will it lead to a fundamental shift in trade and investment with China?

With the assistance of Senators Nelson, Burns, and Kyl, and later Representative Cox, we will touch on some of these questions in our opening discussion. Then we will assemble, in sequence, three panels of experts on media control and the economic impact of SARS.

We look forward to a productive day.

Chairman ROBINSON. Thank you.

In a moment we will begin by hearing some perspectives on these issues from Senator Nelson, Senator Burns, and Senator Kyl. Later we will be hearing expert commentary from three groups of panelists who are intimately involved in tracking China's media, its economy and the information control efforts of the Chinese Government. Representative Chris Cox will be joining us around 11:00.

Senator Burns, please, the floor is yours.

#### **STATEMENT OF U.S. SENATOR CONRAD BURNS**

Senator BURNS. Well, first of all, thank you very much for the invitation. I appreciate that very much, and I think we had a very successful trip over there. We did cover the four countries, which the most interesting was of course our visit to Beijing. I had been there before, and we have been very active in the U.S.-Asia Network, and I'll give you a little history back on that. Then I'll give you my evaluation of our trip, especially to Beijing.

As you know, about 10 years ago there was a big movement on to de-fund an organization here that was worldwide, that was called IPU, Inter-Parliamentary Union. We have done regional meetings of IPU around the world, but we lost touch of having those international meetings, and these were parliamentarians. They weren't the presidents, they weren't the foreign ministers, they were not people that had high standing as far as the administration of their government goes. No matter what their form of government was, these were parliamentarians.

Now, as you know, in the parliamentary form of government you're going to find a parliamentarian who will also be the Minister of Agriculture or the Minister of Foreign Affairs or whatever, but nonetheless we had that relationship severed. And since then there's been several of us who have been trying to establish, on a regional basis anyway, some dialogue between parliamentarians of other countries.

And so we designed the U.S.-Asia Network as a network of parliamentarians out of the Rim countries, out of the Pacific Rim countries, and especially—now I will give you some idea, that we had a wonderful meeting and reception with members of the Japanese Diet, and the Assembly in Korea. In fact, we had 47 parliamentarians out of the South Korean Assembly. And so this dialogue has started.

And then we went into Beijing, and we did it principally because of the Internet Caucus. There's a lot of energy in that caucus here in the Congress. In other words, the other day we opened up with our caucus, and this season we had over 1,000 people at the reception, if you can imagine that. So there's a lot of energy in the Inter-

net and the way it flows. Our government hasn't found a way to regulate it yet, so it's growing expeditiously. I mean, it's really getting after it.

By the way, Richard, you don't sound anything like Alfonso.

Vice Chairman D'AMATO. I'm trying.

Senator BURNS. But anyway, we did have high level meetings, and of course just before our visit, the day before the visit, they fired the Minister of Health and a lot of people who were involved in this very serious situation of SARS. You will be surprised when you get home, that when you get back to the States, you say, "Well, I just got in from Beijing," and everybody is backing up and saying, "Nice to see you."

But, nonetheless, to the seriousness of this thing, I would tell you that even though it was on the news this morning, I heard on the radio coming in that this has peaked but everybody is supposed to stay alert, I don't accept that. I think when this fall comes, I think we will see—and we're dealing with a virus here. Viruses have ways of mutating and changing, and that is why we can't get a handle on HIV/AIDS. And so this is not over.

But this was mismanaged from the get-go, and I am satisfied that had we not gone to Beijing, and there was talk in the delegation whether we should go or not, even as late as the day before we left Taiwan, whether we should take this delegation into Beijing. We decided that we should do it, because I think it would have been—at that time we were probably a delegation that had more visibility in the Far East during that period than any other, because there were eight Senators, all of us representing different facets of the international community.

And so we decided to do it. They dumped us off at the airport in Beijing, fired up the airplane and went back to Korea. So we're there, and I mean, you ain't coming out, but anyway, with our visit there.

But it was plain to me, and it was also plain to the people who wanted to talk about telecommunications, that centrally controlled government does not work; that this blocking of information and how it is transmitted did not serve them well in this case, where we had a breakout of something that could be very, very deadly, not only to themselves but also to their economy and the world economy if this thing got out of hand. It should not have gotten very far.

And so our impression was that more than anything else, they were aware that they have got to make some internal changes when it comes to dealing with public health, because it can disrupt their economy. There was a large commercial show going on, or was scheduled in Shanghai, and basically they used that show, which usually has attendance into the thousands, and there was hardly anyone there because of this situation, because people going into Shanghai said, "We don't know how serious this is, and health-wise, we don't go anywhere where we don't know what we don't know."

And I think that was the attitude. And there was also an auto show with that, at the same time. And so they were trying to manipulate the news, and it led to a situation that has really, as far as the world is concerned—and the WHO has a lot of concerns

around the world on what's in front of us, what else have they kept under wraps that the world should know about and prepare for. But we're satisfied, had we not gone into Beijing, whether they would have even made the change in the leadership as far as their Minister of Health is concerned.

And that was my impression, and that's strictly coming from a person that has no medical—well, I have got a daughter that is a doc, but that don't mean I am. I don't have a college degree, and I am not proud of that, but nonetheless, you guys that has got all of these letters after your name up here, you are very intimidating to me. However, I got a business card that says, "Conrad Burns, NDBA." No degree, but boss anyway.

Senator BURNS. So that is not a bad status. But that was sort of how I summed that up.

The Chinese are very, very nervous about a growing economy now, and they do not want any disruption in this cycle of growth. And now they know that public health is a part, a very essential part of an economy and also their impact on the international economy, and I think they have learned a real lesson here.

And I would hope that their IT people would see this, that there has to be, around the world, a free flow of information, because it becomes very, very important. The Internet, for all of its ills and woes, has become a great source of information. Now, it is up to you to make sure that the information is correct.

But, nonetheless, I think the IT people there are finally realizing it and the leadership is realizing it. When we met, those people have realized the mistake that they had made. They are trying to correct that mistake. But now whether it changes policy at the top on the free flow of information, that is yet to be seen.

And thank you again for allowing me to visit with you this morning. You are on a very good mission. As you know, this is very, very important to the whole world, the relationship with China. Twenty-five percent of the world population speak Chinese, and so it becomes a very, very important mission that you are on, and I thank the chairman for this opportunity.

Chairman ROBINSON. Well, thank you very much, Senator Burns. I know your time is at a premium, and we might not have a chance for a fulsome dialogue this time, but we will welcome your direction to this Commission now or in the future. And thank you so much for—

Senator BURNS. I don't manage direction. I was asked one time about—a General briefed us on an operation one time, and he said, "Now, you're an old Marine," he said. "What do you think?" And I said, "Well, when I served in the Marine Corps as a Corporal, 'decisions' or 'direction' wasn't in my vocabulary. The only thing that was in my vocabulary was 'do.'"

So we appreciate your work, and I think you have got a terrifically good mission ahead of you.

Chairman ROBINSON. Thank you, and we're going to try to be responsive to you, that's for sure.

And Senator Bill Nelson has also kindly agreed to join us and share his insights. Senator Nelson, as many of you know, is the senior Democrat that was on Majority Leader Frist's visit of the delegation to China, Taiwan, Japan, and South Korea that I just

referenced. That delegation met with, as I mentioned, senior Chinese leadership. And Senator Nelson is likewise a member of the Foreign Relations Committee.

And our Vice Chairman may have a remark or two as well.

Vice Chairman D'AMATO. I just wanted to welcome Senator Nelson. Thank you very much for coming here.

As you may know, the legislation that we are working under directs this Commission to look into nine key areas this year, one of which is information flows, Internet and the media, and how the Chinese are controlling or not controlling such flows, particularly in terms of their attitude toward inculcating the Chinese people with particular opinions about the United States, which is something that we looked at last year, and we want to continue that.

We have a number of witnesses today that are Internet specialists, and some of them claim and it appears they are being able successfully to breach that Chinese firewall around China, in which they control the Internet technology. So there has been a lot of leakage, and we are very hopeful that that kind of technology can continue to grow so that the Chinese people do get unvarnished information from the worldwide Internet.

So that is something that we're looking into, but we are very interested in your impressions about forthcoming frankness, openness, whatever. The Chinese leadership, when you met with them, you were kind of the last ones there, so there may not be another group for a while.

And thank you for coming today.

Chairman ROBINSON. Thank you. Senator Nelson, please.

#### **STATEMENT OF U.S. SENATOR BILL NELSON**

Senator NELSON. Thank you, Mr. Chairman, Mr. Vice Chairman, members. It's a privilege. I had prepared some formal remarks for you, but I think in the setting here I would prefer, with your permission, to do it in a much more informal and conversational way, and let me address a number of these issues.

I had last been in China 21 years before, and the differences were almost night and day. The economic vitality, the fact that years ago Deng Xiaoping had said, "We're going to start modernizing our economy," and started moving along the line of private enterprise with the opportunity for personal ownership of property.

Hello, Jon. Well, if you're a speaker, too, I'll shorten my comments.

Vice Chairman D'AMATO. Welcome, Senator Kyl.

Senator NELSON. I'm telling about when we went to China on the Easter break, a delegation of eight Senators led by Senator Frist, and they even put us on the Vice President's plane.

The difference in that 22 years, just from appearance's sake, was night and day. The economic vitality, the toll roads, the worldwide businesses that were apparent there, the private ownership of property, the fact that all of these new apartments were springing up way out in the suburbs, and with that private ownership, then small businesses were springing up. And the patterns of their activity on the weekends of going to the furniture store, because they have the private ownership.

Then when you would see the appearance of all of the leadership that we would meet with in the Great Hall, what a contrast with 21, 22 years ago when it was in poorly lit, dingy but large meeting rooms with all of the Chinese leadership in Mao jackets. And today it's in these well-appointed, brightly lit, appropriately decorated, and all of the Chinese leadership immaculately tailored in business suits, interestingly, a sign of the times.

As we would go into each meeting, have our exchange of pleasantries, shake hands, sit down, and the formal meeting would start, the first thing that would happen is, servants would come in the room with hot moist towels, and everybody would go through this routine. As a matter of fact, under orders from Senator Frist to continuously wash our hands, my hands became so chapped. And yet we, of course, knew that there was very little likelihood, since we were pretty well protected, our exposure was going to be de minimis.

When I would jog on Tiananmen Square, I would stay out of the crowds, although when I would go under the main road in the subway that went underneath, I would get in the crowds. I was stunned, out on the sidewalks, that back then—this was before they shut down Beijing, because they shut it down after we left—still 20 percent of the people on the sidewalks were wearing surgical masks.

And so we were careful, but I must admit that when we got back, I counted down the 10 days of the incubation period. And of course no one was. We were very fortunate. Ben Nelson, who was on the trip, did pull a practical joke on our attending physician, because along about the 10th day Ben was in visiting the docs and said, "Well, I'm very fortunate. I'm feeling fine, but my wife's fever finally broke last night." And of course he was kidding, thank the good Lord.

All right. Now, my observation is that, with SARS as an example, whereas so much is changing in China and there is a rapid change of the economy, the political changes are coming along but they are lagging considerably behind, and SARS is an example. There was a cover-up.

We hammered on the Chinese leadership. While we were there, they sacked the Health Minister and the Beijing Mayor, which I interpreted as they were sacrificial lambs, covering up their cover-up, but the fact is that they were finally facing it.

And it's illustrative that although the economy is moving and is being reformed quite a bit, that there is a lag period in the political leadership. But, the next generation of leaders that will take over in another 5 or 10 years, many of them are Western-educated.

And so if China, as a result of a Maoist named Deng Xiaoping, can start the radical changes in the economy, then I have a great deal of optimism on the future of China emerging from this just totalitarian dictatorship that we have seen in the past. And we see the stresses and pulls on that society now.

President Hu appeared to be an impressive gentleman, but interestingly, they all had their mantra, and the mantra was, "Taiwan, Taiwan, Taiwan," when in fact we were there primarily for Korea.

And of course that was the reason that we decided to take the risk. We felt like it was worth the risk, because the risk of SARS

was going to be de minimis to us, and the importance of us hammering on the Chinese, being the ones that have the greatest leverage over North Korea, was important, especially to reinforce the argument that the two of us, the United States and China, are joined at the hip in the ultimate outcome of getting nukes out of North Korea.

The Chinese had yanked North Korea's chain one time several months ago when they cut off the fuel for three days, and suddenly there was a new, different kind of tune that the North Koreans were singing. And so they have shown it before. We hope that they will do so again.

I must admit that I was a little concerned when we met with President Hu because he was talking like, well, they were just merely conveners of the meeting that was going to take place the next day after we left. And in our last meeting with one of the other top leaders, I mean, we hammered that pretty hard, that you can't be a convener.

I specifically brought up what President Hu had said to us in the previous meeting earlier in the afternoon, that you've got to be a participant in this, and we ought to get the rest of the parties that have the high stakes in this into the discussion, as well. And since we've left, that appears to be where the Chinese are going, and that's very positive for the United States, so I'm very grateful.

So, Mr. Chairman, I'll just leave it there and turn it over to Senator Kyl, but it's a pleasure to share these thoughts with you.

Commissioner DREYER. Will there be time for questions?

Chairman ROBINSON. I don't know if the Senator has any time.

Senator NELSON. If you've got a question, go ahead, but I'm going to slip out.

Commissioner DREYER. The business of the Chinese bringing up Taiwan and the Americans bringing up Korea, did you get the impression that they were asking for any kind of deal? And if so, what was said? Was there any kind of trade-off? Was there a feeling of "You give in on Taiwan, we give in on North Korea?"

Senator NELSON. No, I don't think it was being put in that context. I interpreted it that what they did, they had an agenda, and it was part of their political mantra. And that it was orchestrated, and that the first guy said it, and then before we would go to the next—and we had about five meetings in that one day, all in the Great Hall, the first one was in the Foreign Ministry and then we came to the Great Hall, but a total of about five meetings, including a lunch and a big banquet that night.

It was clear to me that after we would have one meeting, they would completely brief the next meeting participants on the meeting that we had had and what had been said, and they had orchestrated well in advance that each one of them was going to talk about Taiwan. And I remember thinking with the stakes being as high as they are on nukes in North Korea and SARS in your own country, and here they want to sit around and their number one agenda item is Taiwan, and how silly that was. And yet it is illustrative of the lag time of the political reforms from the economic reforms that are going on in that country.

Thank you all.

[The statement follows:]

## PREPARED STATEMENT OF U.S. SENATOR BILL NELSON

Events in East Asia are critically important to the national security interests of the United States. With dangerous actions and rhetoric coming from North Korea, Sino-American relations have been propelled to the forefront of U.S. foreign policy. This has not always been the case over the past few years. We have come through some tenuous times. In April 2001, we found ourselves in a tense standoff with Beijing following the collision of the U.S. reconnaissance aircraft, operating in international airspace, with a Chinese fighter, whose pilot's actions were questionable. We came through that crisis, and other bumps in our relationship, mostly over comments relating to Taiwan, and received solid support from the Chinese following the September 11 attacks. And now, a worldwide public health crisis again puts China in the headlines and on the minds of people everywhere.

From the Congressional perspective, our relations following these terrorist attacks highlight ways in which the United States can positively advance relations with China. There are many areas upon which we can cooperate, specifically fighting international terrorism. We share many interests with the Chinese, and must continue to find ways to work together, especially on the critical issue of nonproliferation.

Recently, I returned from a congressional delegation trip to the region, accompanying the Senate Majority Leader, Sen. Bill Frist, which included stops in Taipei, Seoul, Tokyo and Beijing. The focus on the trip was how to deal with the criminal and outlaw regime in North Korea. The trip was very productive, particularly the delegation's meetings with the Chinese. Of course, the most timely issue was the outbreak of, and government's reaction to, SARS.

This was the first time I had an opportunity to interact with the new head of state, President Hu Jintao. The President engaged on the SARS crisis. Our visit coincided with the sacking of both the Health Minister and Mayor of Beijing. I think this was a sign from the new President, a sign that maybe this government would be more open, and less furtive.

You know from the very early stages of this SARS outbreak, it reminded me very much of the initial Soviet reaction to the horrible accident at Chernobyl. At that time, the Soviet government blamed the western media for blowing the incident out of proportion, until of course the true magnitude of the event was known. Totalitarian regimes are prone to secrecy. It will be interesting to see if the Hu government is, over time, more open and what lasting influence President Jiang Zemin will continue to exercise. Already, the Chinese government has taken to defend its record on SARS treatment, something out of character for the Chinese.

Our delegation was also able to press President Hu, and other government officials about their involvement in the efforts to de-nuclearize North Korea, and urged them to play a more active role in the talks than simply that of "convener." Subsequently, they did engage in these talks in a helpful manner.

The Chinese, in my opinion, are the real "trump card" in these efforts. They supply the North Korean regime with most of their food and energy, and can exert more leverage over their longtime ally than any other nation. The Chinese have made clear that they oppose any "nuclearization" of the Korean peninsula, but are very much afraid of the problems a collapsed North Korean regime may give their country. In meetings with the Chinese Ambassador to the U.S. over the past few months, he reiterated China's condemnation of the North Korean withdrawal from the Nuclear Nonproliferation Treaty. Yet, I think the Chinese were surprised by the attitude taken by the North Koreans during these recent talks, were disappointed by the rebuke they received, and hopefully will ratchet up pressure on this regime, maybe even at the U.N. Security Council. Initially, China rejected the Security Council as a venue for handling the North Korean issue, but has been less dismissive of that option since the talks completed.

With respect to North Korea specifically, and the world more generally, the Chinese can play a critical role in the area of nonproliferation. The Security Council is an appropriate venue for the world's declared nuclear powers to work together on a common response to this danger, but U.S. leadership will be needed. This is not simply a problem for the United States because it affects world security, particularly because of North Korea's propensity to sell its weapons and related technologies the highest bidder. We cannot allow this, and cannot allow the North Koreans to develop a functioning nuclear arsenal. China can and should play a role significant in this, but we must be steadfast and all options must remain on the table. We must also construct a solution that is irreversible and verifiable, in close consultation with South Korea, Japan and Russia.

In conclusion, it is clear that China will remain a critical player in the security of Asia, and other areas in which the United States has vital interests affecting

trade, national security, and the war on terrorism. China's actions affect U.S. interests on the Korean peninsula, in Taiwan and in Afghanistan. As a result, the United States must pursue aggressive diplomatic efforts to gain China's full cooperation in solving common threats to our security.

With respect to the SARS outbreak, we will be watching to see how much Hu presses for change. As this crisis unfolded, the Chinese government has moved to be increasingly responsive and almost accountable on SARS. This is a welcome development and could be a harbinger of more substantive and meaningful reform to come. Former President Jiang still holds significant power in this government, and was able to successfully maneuver at the Party conferences to get his key allies into government positions. Another important aspect of this whole matter is that the Chinese government has taken meaningful steps to provide some accountability for the handling of this disease, unlike previous Chinese governments. President Hu could try to use the SARS outbreak to make other changes. Only time will tell, but I think that early indications are that any changes at all will be slow and incremental.

In the mean time, it is my hope that our two governments continue to focus on common threats to our peace and security, and that the Congress continues to press China to reform and improve its egregious human rights record. It is in both of our nation's interests to do so.

Thank you very much.

Chairman ROBINSON. Thank you, Senator Nelson, very much. We're so grateful you could take the time to come by.

Also with us today, kindly gracing us with his presence, is Senator Jon Kyl, who is, as most of you know, the principal sponsor of the Global Internet Freedom Act which he played a key role in during the last Congress, and I suspect will do so again shortly. He is also Deputy Minority Whip and Chairman of the Senate Republican Policy Committee. I am proud to say Senator Kyl is a long time friend and a very prominent advocate for the strengthening of our national security, including helping manage the burgeoning nuclear crisis on the Korean Peninsula.

As our Vice Chairman would say, were he here, we have a mandate for nine categories of inquiry this year, Senator Kyl, and one of those of course is the vigorous Chinese effort to staunch the free flow of information to the Chinese people, particularly via the Internet, text messaging, and other venues. And it is particularly timely that you could join us as the SARS epidemic, a key indicator in that challenge we have on opening up the free flow of information.

So, with that, we are very keen to hear your remarks. Thank you.

#### **STATEMENT OF U.S. SENATOR JON KYL**

Senator KYL. Thank you very much, Mr. Chairman and members of the Commission. It's my privilege to be here with you. I hope that I can at least provide a point of view and some background, but I'm not nearly as expert on these matters as most of you are.

Let me say that I have been cognizant of your time, and therefore prepared a statement which I would like to submit to you for the record, but I have also prepared written remarks that are designed to fall within my usual rules as a subcommittee chairman of under 5-minute presentation, and therefore, cognizant of your time, I'll actually read those remarks because I know that they fall within that time limit.

But I would say, by way of introduction, that I think that Senator Nelson, and in your introduction, Mr. Chairman, introduced the subject yet again in a very enlightening way. We simply can't get around the fact that, while economic liberalization has held out

great hope for democratization and greater expression of freedom, including through means of communication such as the Internet, that it simply hasn't happened in China.

And it has caused people for almost two decades to scratch their heads and wonder why this is so. I think some of the reasons for that are fairly evident, but it is a realistic set of circumstances that we have to confront and take into account when we deal with China in diplomatic ways, dealing with the Korean issue, for example, and attempting to get Taiwan into the World Health Organization at a very time when the SARS outbreak was confronting both that island as well as the mainland, and yet the Chinese Government undertook a significant effort to prevent the WHO even as an observer status for Taiwan.

So it seems that we can never get out of this dilemma. Economic liberalization, yes, and Senator Nelson spoke eloquently about that. And yet the perplexing lack of progress toward democratization, human rights, free expression, and so on. That's the question I think that is going to bedevil us for some time, but it obviously requires us to be realistic and clear-eyed in any dealings that we have with China.

Though it is a member of the World Trade Organization, it has normal trade relations with the United States, and my understanding is that the mainland is projected to have the world's second largest trading economy by the year 2010, the People's Republic of China continues to consistently violate international accepted norms of behavior on a broad range of issues. It proliferates weapons of mass destruction and missiles. It supports some terrorist-sponsoring regimes. It commits widespread human rights abuses. It threatens our longstanding democratic ally, Taiwan, just to name a few.

And then the SARS crisis is of course the latest illustration that China has made little progress, if any, toward these democratic values, including freedom of communication. Worldwide SARS outbreaks I think serve as a chilling reminder of the impact, on not only the Chinese people but the world community, of the Chinese Government's grip on the media.

Because of a concerted effort on the part of China's leaders to withhold information about the outbreak initially, in large part through the censoring of the press, thousands of lives were placed at risk. The Chinese people have hopefully begun to better understand this aspect of their government.

However, SARS is unlikely to be China's Chernobyl unless the United States Government and others use the epidemic to launch a more serious campaign to help the communist regime understand the change it's going to have to make. One of the positive steps that we can take is to place a greater emphasis on the basic freedoms of speech and press and association in our dealings with China, starting with the Internet.

The Internet is one of the most powerful tools to promote these freedoms by facilitating the exchange of ideas and the dissemination of information. Unfortunately, the Chinese Government, like many other authoritarian regimes, aggressively blocks and censors the Internet, often subjecting to torture and imprisonment those individuals who dare to resist its controls.

These are realities, Mr. Chairman and members of the Commission. Just last week, for example, the New York Times reported that four intellectuals who were detained by Chinese authorities more than two years ago were convicted of, and the crime is designated "subverting state power," for their discussions of political theory on the Internet. Each was sentenced to between 8 and 10 years in prison.

Beijing has passed sweeping regulations in prohibiting news and commentary on Internet sites in China that are not state-sanctioned. The report released last year by this Commission noted that China has even convinced American companies like Yahoo to assist in its censorship efforts, and others like America On Line to leave open the possibility of turning over names and e-mail addresses and records of political dissidents if the Chinese Government requests them.

It would be beneficial, Mr. Chairman, I think, for this Commission to further investigate any specific actions taken by these two companies or any others to appease the Chinese Government in this regard. The blocking of web sites in China is a widespread, far-reaching problem.

According to a study released in December of 2002 by the Harvard Law School, as many as 50,000 out of 200,000 web sites surveyed during the 6-month study were blocked. Such sites included those of major foreign news organizations, health organizations, and educational institutions, among others.

The U.S. private sector is developing a number of technologies to combat Internet blocking. Unfortunately, the U.S. Government has contributed few resources to assist these efforts and to put these new techniques to use.

For example, last year Voice of America and Radio Free Asia budgeted only \$1 million for technology to counter Chinese Government Internet jamming, and that funding expired long before the year's end. If the United States is to fully take advantage of the opportunities presented by widespread access among the Chinese population to the Internet, then we must elevate the priority of Internet freedom in our public diplomacy, as well as better coordinate and dedicate more resources toward the U.S. Government and private sector anti-jamming efforts.

I believe that the Global Internet Freedom Act, which I recently introduced with Senator Wyden, will take an important step in that direction. The bill establishes an Office of Global Internet Freedom charged with combatting state-sponsored Internet jamming and persecution of Internet users. The office would be responsible for the development and deployment of anti-jamming technologies, using private sector expertise where available, but also hastening the invention of state-of-the-art tools that will keep free individuals one step ahead of the political censors.

Congressmen Cox and Lantos have also introduced this legislation in the House, and I understand it has become part of the State Department authorization bill that will soon be considered by that body.

I cannot stress enough the importance of the Internet in promoting the flow of democratic ideas, but promoting democratic change will require more than a technological fix to circumvent

Beijing's firewalls. It will also require the United States to clearly and consistently exercise leadership, unapologetically standing for freedom, even at times when it may seem easier to look the other way.

In that regard, the United States should make clear to China's leaders that the United States will not overlook the repression of the Chinese people simply for the sake of gaining ostensible Chinese support for other objectives, including the war on terrorism or our efforts to deal with North Korea's development of nuclear weapons. Rather, we should commit to using all of the tools at our disposal, including the Internet, to foster democratic change in that country by enabling Chinese citizens to gain unfettered access to the information that will ultimately empower them to choose their own destiny. As former President Harry Truman once said, this is a struggle, above all, for the minds of men.

Mr. Chairman, thank you for the opportunity to testify. Members of the Commission, I appreciate the hard work that you put in. I think some of us don't appreciate the number of hours that people like you devote to this subject, and I very much appreciate your devotion to trying to make this a better world. Thank you.

[The statement follows:]

PREPARED STATEMENT U.S. SENATOR JON KYL

I would like to thank the Commission for the opportunity to testify at today's hearing.

History shows that economic liberalization usually leads to democratic reform. Why, after almost two decades, has that not happened with communist China? In China's case, economic engagement—or at least economic engagement alone—has not produced political liberalization. Today, though it is a member of the World Trade Organization, has normal trade relations with the U.S., and is projected to have the world's second largest trading economy by 2020, the People's Republic of China continues to consistently violate internationally-accepted norms of behavior on a broad range of issues. It continues to proliferate dangerous weapons to terrorist-sponsoring regimes, commit widespread human rights abuses, and threaten our long-standing, democratic ally, Taiwan.

The SARS crisis is of course the latest illustration that China has made little progress, if any, toward embracing democratic values. Worldwide SARS outbreaks have served as a chilling reminder of the impact on not only the Chinese people, but also the world community, of the Chinese government's tight grip on the media. Because of a concerted effort on the part of China's leaders to withhold information about the outbreak, in large part through censoring the press, thousands of lives have been placed at risk. The Chinese people have hopefully begun to better understand their government's character; however, SARS is unlikely to be China's Chernobyl unless the U.S. government and others use the epidemic to launch a more serious campaign to change the communist regime.

One of the positive steps that we can take is to place a greater emphasis on the basic freedoms of speech, the press, and association in our dealings with China, starting with the Internet. The Internet is one of the most powerful tools to promote these freedoms by facilitating the exchange of ideas and the dissemination of information. Unfortunately, however, the Chinese government—like many other authoritarian regimes—aggressively blocks and censors the Internet, often subjecting to torture and imprisonment those individuals who dare to resist its controls.

Just last week, for example, the New York Times reported that four intellectuals, who were detained by Chinese authorities more than two years ago, were convicted of "subverting state power" for their discussions of political theory on the Internet. Each was sentenced to between 8 and 10 years.

Beijing has passed sweeping regulations in prohibiting news and commentary on Internet sites in China that are not state-sanctioned. The Ministry of Information Industry regulates Internet access, and the Ministries of Public and State Security monitor its use. The State Department's most recent Country Reports on Human Rights Practices described the types of censorship, stating that, in 2002,

“[The Chinese Government] took steps to increase monitoring of the Internet and continued to place restrictions on the information available. . . . Regulations prohibit a broad range of activities that authorities have interpreted as subversive or as slanderous to the state . . . Internet service providers were instructed to use only domestic media news postings, record information useful for tracking users and their viewing habits, install software capable of copying e-mails, and immediately end transmission of so-called subversive material. . . .”

The report released last year by this Commission noted that China has even convinced American companies like Yahoo! to assist in its censorship efforts, and others, like America Online, to leave open the possibility of turning over names, e-mail addresses, or records of political dissidents if the Chinese government demands them. It would be beneficial, Mr. Chairman, for this Commission to further investigate any specific actions taken by these two companies, or others, to appease the Chinese government.

The blocking of websites in China is a widespread, far-reaching problem. According to a study released in December 2002 by Harvard Law School, as many as 50,000 out of 200,000 websites surveyed during the six-month study were blocked. Such sites included those of major foreign news organizations, health organizations, and educational institutions, among others.

Those who attempt to circumvent Internet restrictions in China are often subject to harsh punishment. For example, Huang Qi, the operator of an Internet site that posted information about missing persons, including students who disappeared in the 1989 Tiananmen massacre, was tried secretly and found guilty of “subverting state power.” According to the State Department, Huang was bound hand and foot and beaten by police while they tried to force him to confess. The New York Times reported a few weeks ago that he was finally sentenced to 5 years in prison, after being detained for more than 3 years. Another individual, Li Dawei, a former Chinese police officer, was sentenced by Chinese authorities to 11 years in prison for downloading “reactionary” articles and maintaining contacts with foreigners.

These are but a few examples of the incredible lengths that the Chinese government has gone to in order to preserve control over the Chinese people and prevent change. Voice of America, Radio Free Asia, Amnesty International, and the National Endowment for Democracy— just to name a few— all utilize the Internet to try to provide news, spread democratic values, and promote human rights. But the obstacles they face in China— and in many other countries, like Saudi Arabia, Syria, Vietnam, Cuba, and North Korea— are great.

The U.S. private sector is developing a number of technologies to combat Internet blocking. Unfortunately, however, the U.S. Government has contributed few resources to assist these efforts and to put the new techniques to use. For example, last year, Voice of America and Radio Free Asia budgeted only \$1 million for technology to counter Chinese government Internet jamming, and that funding expired long before the year’s end.

If the United States is to fully take advantage of the opportunities presented by widespread access among the Chinese population to the Internet, we must elevate the priority of Internet freedom in our public diplomacy, as well as better-coordinate, and dedicate more resources toward, U.S. Government and private sector anti-jamming efforts. I believe that the Global Internet Freedom Act, which I recently introduced with Senator Wyden, will take an important step in this direction. Specifically, this bill establishes an Office of Global Internet Freedom charged with combating state-sponsored Internet jamming and persecution of Internet users. The Office will be responsible for the development and deployment of anti-jamming technologies - using private sector expertise where available, but also hastening the invention of state-of-the-art tools that will keep free individuals one step ahead of the political sensors.

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It will also require the United States to clearly and consistently exercise leadership, unapologetically standing for freedom, even at times when it may seem easier to look the other way. In that regard, the United States should make clear to China’s leaders that the United States will not overlook the repression of the Chinese people simply for the sake of gaining ostensible Chinese support for other U.S. objectives, including the war on terrorism or efforts to deal with North Korea’s development of nuclear weapons. Rather, we should commit to using all of the tools at our disposal - including the Internet - to foster democratic change in that country

by enabling Chinese citizens to gain unfettered access to the information that will ultimately empower them to choose their own destiny. As former President Harry Truman once said, "This is a struggle, above all, for the minds of men."

Thank you, again, Mr. Chairman, for the opportunity to testify today.

Chairman ROBINSON. Well, thank you very much, Senator Kyl, and for what I think is a powerful and a highly useful statement which not only will be included, but I'm sure will be a valuable resource as we prepare our second annual report to the Congress. This is a terribly important subject. It was singled out for its own independent attention, in the nine issue areas that we have been mandated to look at, and you can be sure that your efforts and those of Representatives Cox, Lantos, others, will be central to better understanding and, more importantly, taking action to redress, what is a dangerous situation, whether it's in the health dimension or in the context of the Korean Peninsula and others.

I am respectful of your time and I know that it's at a premium. I didn't know whether you had time for a question. And our Vice Chairman, Dick D'Amato, also has just one comment.

Senator KYL. Yes, Mr. Chairman, I would happy to take a question. I just would note that the Judiciary Committee Chairman Orrin Hatch has twisted my arm to make sure that he can get a quorum in the Judiciary Committee, which has an executive session going on right now. I told him I would be "right back." However, happy to take any comment or question.

Chairman ROBINSON. Yes.

Vice Chairman D'AMATO. Thank you, Senator Kyl, for coming, and I want to congratulate you for your work in this area. Indeed, this is the purpose of this initial hearing. Our opening hearing is on this matter.

And the good news is that we have some technology companies in the United States who we think have, with confidence, been able to develop mechanisms to breach that firewall. What they need is more resources, apparently. Anyway, we're going to get some testimony on that today, and we'll keep you informed on that. And we would certainly like to help you in any way that we can in terms of the legislation that you developed in that area.

Chairman ROBINSON. Thanks so much, Senator Kyl. Really, we are very grateful.

We are going to take a 5 or so minute break at this time, and then we'll be convening our first panel of the day. Thank you.

[Recess.]

Chairman ROBINSON. We would like to begin as soon as we can, if you wouldn't mind taking your seats. Thank you.

Welcome to the first of what we expect will be a full slate of hearings of the U.S.-China Economic and Security Review Commission during the 108th Congress. I am pleased to be joined by the Vice Chairman of the Commission, who is also co-chair of this hearing, Dick D'Amato, and my fellow Commissioners.

I want to especially welcome and recognize Ambassador Robert Ellsworth, one of the two new members of the Commission. The other, Carolyn Bartholomew, is with us in spirit even though regrettably she is out of the country today.

We were particularly pleased to hear from Senators Bill Nelson, Conrad Burns, and Jon Kyl. We understand that Representative Chris Cox will be able to join us this morning at around 11 o'clock,

as we examine a timely and interesting set of questions that have been brought into focus by the recent SARS crisis in China.

As you know, we have heard from two Senators who accompanied Senate Majority Leader Frist on his recent visit to China at the peak of the SARS outbreak. We are also, in the course of this morning, discussing with two long time champions of media freedom and sponsors of the Global Internet Freedom Act, the array of issues that are posed by vigorous Chinese efforts to control the free flow of information to the Chinese people.

For the world, SARS is fundamentally a global public health challenge, one that we must confront and overcome together. But for China, effectively fighting the spread of SARS has become more than a question of protecting the health of its population. The spread of SARS has placed heavy stress on a political system unaccustomed to being held to account, secretive about its internal information flows, and uncomfortable with open questioning, debate, and certainly criticism of its policies.

I should note that the Congress established the U.S.-China Economic and Security Review Commission in October 2000 for the purpose of monitoring and investigating issues related to the national security dimensions of the bilateral economic, trade, and financial relationships between the United States and the People's Republic of China. We're charged with providing an annual report to Congress with our findings and recommendations for legislative or administrative action.

We made our first such report to the Congress in July of last year, and since then, despite our nation's continuing focus on the global war against terrorism and the daunting challenge posed by weapons of mass destruction and ballistic missile delivery systems, developments in the world have not in my view diminished in any way the importance of the subjects we are charged to evaluate.

China, with its continued rapid growth, unmatched level of inward investment, and further embedding itself in the web of global commerce and finance, is a country to be reckoned with economically. Moreover, China's economic growth and technological progress are closely linked to its military modernization and its political influence in the region.

China's proliferation policies and practices, a perennial cause for concern, remain in sharp focus partly due to the burgeoning nuclear crisis on the Korean Peninsula. A big question is, will China be part of the proliferation problem or the proliferation solution in the months ahead? Thus, it's fair to say that the events in China matter greatly to the United States economy and national security, today and for the foreseeable future, and we as a country need to continue to monitor closely the dynamics of these implications.

In February of this year the Congress provided us further guidance for our work. Our new legislative mandate reiterates the need for us to focus on such key issues as China's compliance with WTO obligations, its proliferation policies and practices, the connection between China's economic reforms and U.S. economic transfers to China, China's role in the world's energy sector, China's access to U.S. capital markets, and the nature and scope of U.S. investment in that country.

Specific to today's hearings, our revised charter also specifically tasks the Commission with evaluating Chinese Government efforts to influence and control perceptions of the United States and its policies through the Internet, the Chinese print and electronic media, and internal propaganda. We are also directed to assess China's fiscal strength to address potential future challenges to internal stability and the likelihood of externalization of such problems, and to assess China's economic impact on the region, including economic and security relations across the Taiwan Strait.

The unfolding SARS crisis has brought into greater focus, I think, traits of the Chinese system in all three areas: media control, fiscal strength, and regional economic impact. In a moment we'll begin by hearing some perspectives from our panelists. Later we're going to get expert commentary from two other groups of panelists involved in tracking not only China's media, which you gentlemen are expert in addressing, but also its economy, and information control efforts more generally of the Chinese Government.

As I mentioned, Representative Chris Cox will be joining us at about 11 o'clock, and if I can beg your indulgence, as he's going to be on a very tight time schedule, we'll be hearing from him, and interrupting just for a short time our proceedings so that he might make a few key remarks.

So for more on the specifics of how our day will unfold, I'd like to turn to my esteemed hearing co-chair and the Commissioners' Vice Chairman, Dick D'Amato. Thank you.

Vice Chairman D'AMATO. Thank you very much, Mr. Chairman. I'm pleased to co-chair this initial hearing of the Commission this year with you. I also would like to particularly greet one of our new members, Ambassador Ellsworth. He has a long, distinguished career in public service, including Ambassador to NATO at one point, and high ranking positions in the Department of Defense, but more importantly, he is filling a void in establishing a new West Coast anchor for the Commission's work this year which we hope to take advantage of.

I also want to welcome in absentia, she is necessarily absent today, Carolyn Bartholomew, who is also a new member of the Commission, and welcome back all members who have been re-appointed today.

Our topic today is very timely. The Chinese Government's initial denial, to its own people and to the world, that it faced the serious SARS problem, brought condemnation and criticism from many quarters, not least from China's neighbors and international public health officials who found themselves battling an unknown disease without the benefit of full access to information from its country of origin.

Ordinary Chinese citizens have been eloquent in their expressions of mistrust of their government. In late April, 1 million Chinese voted with their feet when they vacated the capital of Beijing soon after the government revealed that the number of SARS cases there had been seriously under-reported. Before that, cell phone text messaging volume broke all prior records, as citizens frantically sought sources of reliable information on the spread of the new disease.

Since the April 20th dismissal of two high-ranking government officials, President Hu, has ordered full and accurate reporting of SARS cases in government channels. China now reports a steep decline in the new SARS cases and deaths from the disease. We have a right to express some question as to the confidence that we should have in these new numbers.

The basic question is, what does the public health problem of SARS mean for China's future? What does it reveal about China's present? Within this Commission's mandate of assessing Chinese media control efforts and economic development, there are many questions needing exploration.

And I would note with disappointment the account in the Washington Post a couple of days ago that the Chinese Government is now in the process of back-pedaling furiously, denying that the problem is of any great consequence at the moment, and asserting that everything is under control. We heard that before.

We will examine the strains put on China's political system by the SARS public health challenge. How effectively has the new leadership responded? What does the SARS episode reveal about leadership dynamics and about public confidence in the state apparatus? What does it mean for long term openness in China?

There is a fundamental contradiction in the PRC Government's approach to information which has been brought into sharper focus during this epidemic. China continues to build out rapidly a modern telecommunications infrastructure involving billions of dollars of investment and millions of new Internet and cell phone users each year. Information technology is vital to China's success in a densely connected global production system.

China is more and more "wired" at home and "connected" abroad. Yet, in the face of this remarkable expansion of IT and business information, the Chinese Communist Party continues to attempt very strict control of broadly defined categories of so-called "sensitive information" and "political expression." These controls may tighten or loosen, depending on conditions, but the party clearly wants to maintain a high level of control.

We will hear today about China's "Internet police" and the jamming and blocking of broadcasts and web sites, and consider whether these measures are keeping up with the anti-censorship technologies and the inflow of independent sources of information. Who is winning, the cops or the robbers, in the Internet game here?

We will look at how media controls and secrecy exacerbated the SARS outbreak, but also assess how new media contributed to exposing the government's cover-up. We will also examine how the U.S. Government and non-government actors are working to facilitate broader access by the Chinese people to reliable, uncensored news and information. There are exciting new developments in this area which promise a permanent breach of the "Great Firewall" that the government has erected around China.

We will also look at whether Chinese media organizations are being more assertive or not, in light of SARS.

Finally, today we will consider the economic implications of the SARS situation for China. We will try to assess the direct costs to society of the disease itself and of longer term investments that

need to be made to China's public health infrastructure. We will hear from experts on the economic and business outlook for China and the region.

Are there new risks inherent in doing business in China? This is a question that all U.S. companies are undoubtedly asking themselves when they make investment decisions. Has foreign investor confidence been shaken by SARS, by fears a future SARS-like crisis will not be met with effective government action? Is the "SARS effect"—with the disease now apparently under control, we are told, in most regions—going to be just a blip on the economic charts? Or, if the disease continues to spread or resurges this fall, will it lead to a fundamental shift in trade and investment with China?

I would say we have a very interesting group of witnesses in the panels this morning and this afternoon. We have Mr. Jay Henderson, who is the Director of the East Asia and Pacific Division of the Voice of America; Dan Southerland, Executive Director of Radio Free Asia; and Mr. Ken Berman, Manager of the International Broadcasting Bureau's Anti-censorship Program. After lunch we will hear from a second panel of four representatives from the private sector and academia.

Just a comment on timing for the hearing. Each panelist, we will have all three of you make your comments first, and then we will go to questions. If you could try and keep your presentation to about 10 minutes for your oral remarks, of course your full written presentation will be put in the record and will be printed.

The Commissioners will be given 7 minutes for each round of questions, which includes the answer. A timed light system here—this is the "Internet cop" here—will be administered, which will go from green to yellow when there are 2 minutes left and flash red at the end of the allotted time.

Thank you, Mr. Chairman.

Chairman ROBINSON. Thank you, Commissioner D'Amato.

Mr. Henderson, you will go first, and please, we're looking forward to your remarks.

#### **Panel I: SARS' Impact on Media Control and Governance I**

##### **STATEMENT OF JAY HENDERSON, DIRECTOR, EAST ASIA & PACIFIC DIVISION, VOICE OF AMERICA**

Mr. HENDERSON. Thank you very much. Chairman Robinson, Vice Chairman D'Amato, and distinguished members of the Commission, thank you for giving Voice of America this rare opportunity to explore what I think is a very important series of issues. But before I begin discussing China's handling of information relating to SARS, the three of us seated here before you thought it would be helpful if I took a second to explain how the three of us work with each other.

First, we are all employees of the Broadcasting Board of Governors, which is a bipartisan panel of eight presidential appointees and the Secretary of State, who oversee all international broadcasting. I work for the Voice of America, Mr. Southerland for Radio Free Asia, Mr. Berman for the International Broadcasting Bureau. Other broadcasters under the Broadcasting Board of Governors include Radio Marti, which broadcasts to Cuba; Radio Free Europe

and Radio Liberty; World Net Television, with which VOA is about to merge.

Each broadcasting entity has a different mission. VOA's is to be an accurate and comprehensive source of news and information on the United States, the world, and the target country. RFA's is to sound like a local station would sound if the media were free in that country. They attempt to set a high standard for the country to aspire to by being authoritative and credible in their reporting of what's happening inside that country.

Both RFA and VOA adhere to the highest standards of journalism. Together, we broadcast 24 hours a day in Mandarin, 7 days a week, and VOA airs an additional 6 hours a day in Cantonese and Tibetan, including two Tibetan dialects. Together with RFA, we have 4 or 5 million regular listeners to our shortwave broadcasts in China. This is according to professional audits.

The IBB's mission, put very simply, is to provide support services such as engineering for all of the broadcasting entities, including Radio Free Asia and VOA. Even though we have separate missions, all of us who work for the Broadcasting Board of Governors consider our callings to be complementary, and we often work together on common problems, such as trying to find solutions to the way the Chinese jam our broadcasts and block our web pages.

Now let me turn to the questions that we're here to discuss, and I will just open, in the interests of time, with my conclusions. If there is any time left, I can maybe explain some of the reasons.

First, from the very start of the SARS crisis, China's control of information was absolute. Second, China continues to suppress SARS information, for various reasons. Third, I believe if something happened again tomorrow like SARS, China would again do its utmost to keep the truth from being known. In this regard, SARS has not made a dent in China's commitment to total control of information.

Fourth, it is not too late, because we have new leaders in China, it is not too late for China to handle this responsibly. The process of political reform, long overdue and however slight at this point, must begin, and let it start with the loosening of controls on foreign media such as RFA and Voice of America.

China did not start reporting news of SARS until early April. They called it "atypical pneumonia" at that point, long before it was called SARS. Voice of America aired its first report in early February. We had been onto the story for a couple weeks before that, but we were holding off, for confirmation, such a controversial story.

One cannot help but wonder if the scale of the SARS crisis in China would not have been diminished if the Chinese had not been jamming our broadcasts and blocking our web page, which was also full of information about SARS, about "atypical pneumonia." But a strange coincidence happened. Right about the time that the news was breaking through Voice of America about SARS, China was holding its National People's Congress, and they were calling for a blackout on all bad news during the meeting of the National People's Congress.

We have covered the story every day since then, more than 400 in-depth interviews, call-in shows, et cetera. Reports have traced

the slow but steady spread of SARS across China, into Hong Kong and around the world. Unfortunately, Chinese jamming of VOA broadcasts sharply reduces the reach of our reports.

Our regular audience of Voice of America is about 3 or 4 million listeners, a fraction of the potential audience if Beijing were to stop its jamming. There are lots of Chinese who would support a loosening of controls on jamming.

We had Chinese author Dai Qing recently told our listeners, “The central government decides what to do, and does not at all respect the rights of the individual to know the facts, or report the real situation to the people.”

A man named Bao Tong, the former secretary to the Premier Zhao Ziyang—who 14 years ago, on Tiananmen anniversary, Bao Tong was the secretary to the Premier Zhao Ziyang—Bao recently complained on VOA’s airways that “all important information belongs first to the leadership, not to the society.”

And this week, political commentator Liu Sanchan told our audiences that “so far, we haven’t seen anything and in the foreseeable future we cannot expect to see political reform in China. Even if SARS killed 10 million people, instead of just 300, the country’s closed political system would remain the same.” I do not believe he was being hyperbolic.

China wants to project an international image as an open country with progressive ideas. But, as the SARS disaster reveals, Beijing believes that total control of ideas is still vital to national security. China’s government, and particularly the Communist Party, fear an informed population.

In their minds they see themselves as the sole defenders against chaos. They are the people that ended 100 years of chaos in China in 1949, and there are no institutions, there are insufficient laws, there is an insufficient web that would create a civil society that would offer an alternative to their total rule. Therefore, they want to continue and they fear any alternative.

Mao brought an end to 100 years of war. Deng changed the economy from a socialist collective to a capitalist, semi-free market. Jiang Zemin gave us the “three represents,” if you can figure out what that means. He talked about political reform, but 10 years went by and nothing happened.

China now has a new team in Hu Jintao and Wen Jiabao. SARS is their first challenge. They can choose between taking the same road as their predecessors, or they can use this crisis to start down the road to incremental political reform. Unfortunately, I think the way that the new leadership is handling the SARS crisis does not bode well.

To be fair, they were not fully vested in their positions until March, and it was in April that they started to crack down on the people who had been holding back on information. So there are ways where we can take a potentially charitable look at the way they handled it at the beginning.

But I think there is no charitable way of interpreting the manner in which China has denied Taiwan access to SARS information. Responsibility for this must be laid right directly at the door of the new leadership. They have not only succeeded in denying Taiwan observer status, I should say Taipei observer status at the WHO,

but this last week they denied access to the United Nations of Taiwan's representative in New York, who had been invited to speak there about SARS.

The situation may not be hopeless. Conservatives remain strong, but reformers, what I call underground dissidents, millions of them working within the system, want to reform China and want to do so without causing the instability that the conservatives fear.

We shouldn't underestimate our ability to influence the pace of reform in China. This Commission is positioned to recommend to the Congress, and indeed to the Chinese, a few relatively painless steps that would begin the process of opening up politically.

The first step, in my opinion, would be to invoke reciprocity between the Chinese and the Americans in terms of government-sponsored journalists in the U.S. and the number of our journalists in China. China has at least 40 or more government-sponsored journalists on our soil. VOA has been operating for years in Beijing with only two. RFA has none. The obvious remedy is reciprocity, which would mean either more visas for us or less visas for them, and this is something that our government can control.

And what about the ability of our journalists to travel around China with the ease of, say, a foreign tourist? Must we continue to accept that when our journalists travel outside Beijing, they have to get permission and they have to take an escort and pay his expenses, while their journalists can travel anywhere they want in the United States? Let the Chinese choose which field to play on, as long as it be reciprocal.

Given the SARS disaster, is it not time to ask the Chinese to end blocking our web pages? These pages are full of helpful information on SARS, and have been since the crisis began. All our information is in Chinese. Our hits soared right after the SARS crisis began, and then the Chinese caught on and, as Ken Berman will explain to you, they found ways to knock it down, but we're also putting it right back up. We're trying to find ways.

Let's ask the Chinese, every day between now and the opening of the Olympics in Beijing in 2008, how they can expect the world to send its best athletes into their care, if the government thinks that proper response to a health crisis is to cover it up?

They love to see their flag flying alongside that of other nations. They invest heavily in acquiring memberships symbolizing China's status—World Trade Organization, World Health Organization. They believe they merit this respect without having to prove anything.

China will some day realize that the free flow of information is a far truer mark of a civil society than joining one of these world organizations or hosting the Olympics. I hope these hearings and the report of this Commission will serve to communicate this message to the Chinese leadership, and that the next time a SARS-like crisis occurs in China, the first response will be, "Let's get the word out."

Thank you, sir.

[The statement follows:]

PREPARED STATEMENT OF JAY HENDERSON

Distinguished Members of the Commission.

Before I begin discussing China's handling of information relating to SARS, the three of us seated before you thought it would be helpful if I took a second to explain how we work with each other.

First, we are all employees of the Broadcasting Board of Governors, a bipartisan panel of eight presidential appointees and the Secretary of State who oversee all U.S. international broadcasting.

I work for the Voice of America, Mr. Southerland for RFA and Mr. Berman for the International Broadcasting Bureau. Other broadcasters under the BBG include Radio Marti for Cuba, Radio Free Europe/Radio Liberty, and WorldNet television with which VOA is about to merge.

Each broadcasting entity has a different mission. VOA's is to be an accurate and comprehensive source of news and information on the United States, the world and the target country. RFA's is to sound like a local station would sound if the media were free in that country; they attempt to set a high standard for the country to aspire to by being authoritative and credible in reporting what is happening inside the country. Both RFA and VOA adhere to the highest standards of journalism. Together we broadcast 24 hours a day, seven days a week in Mandarin; VOA airs an additional six hours a day in Cantonese and Tibetan. We have four or five million regular listeners to our shortwave broadcasts in China, according to professional audits. The IBB's mission is to provide support services, such as engineering, for all the broadcasting entities including RFA and VOA.

Even though we have separate missions, all of us who work for the BBG consider our callings to be complimentary and we often work together on common problems—such as trying to find solutions to the way the Chinese jam our broadcasts and block access to our web pages.

Now let me turn to the questions we are here to discuss.

Let me start with my conclusions, then give my reasons for making them:

1. From the very start of the SARS crisis, China's control of information was absolute.
2. China continues to suppress SARS information.
3. If something similar happened again tomorrow, China would again do its utmost to keep the truth from being known. In this regard, SARS has not made a dent in China's commitment to total control of information.
4. It is not too late for China to handle this responsibly.
5. The process of political reform, however slight, must begin.
6. Let it start with loosening controls on foreign media.

China did not start reporting news of SARS, then referred to as "atypical pneumonia," until early April, two full months after VOA aired its first report on SARS in Mandarin on February 11th. We had been working on this story for two weeks before then, but had great difficulty confirming that hospitals were being quarantined in Guangdong. Our practice in such cases is to wait for confirmation before reporting the news. One cannot help but wonder if the scale of the SARS crisis might have been held down if the Chinese had not been jamming our broadcasts and blocking our web page. But at the same time that China called for a blackout on all "bad" news during the meetings of the National People's Congress. We have covered the story every day since then. In more than 400 reports we've traced the slow but steady spread of SARS across China, into Hong Kong and around the world.

Just this week (June 2, 2003) the guest on our daily-televised call-in show to China was a representative of the World Health Organization. This man, David Brandling-Bennett, told us he is convinced the Chinese are still holding back and not sharing the full picture with either the WHO - or themselves.

Some of our sources have been silenced. In mid-April, People's Liberation Army Dr. Jiang Yanyong in Beijing bravely told us that China's government was understating the number of SARS cases and deaths. A week later, he told us he was being pressured to stop talking with foreign media. Finally, Jiang "had nothing more to say." If China were a more open country, a hero like this would receive a medal for speaking the truth.

Unfortunately, Chinese jamming of VOA broadcasts sharply reduced the reach of these reports. Our regular audience is about 3 or 4 million listeners, a fraction of the potential audience if Beijing stopped its jamming.

Many Chinese would support a loosening of controls on information. VOA regularly interviews prominent Chinese citizens who are not afraid to speak out.

—Chinese author Dai Qing recently told VOA's listeners, "the central government decides what to do, and does not at all respect the rights of the individual to know the facts, or report the real situation to the people."

—Bao Tong, secretary to former Premier Zhao Ziyang, complained on VOA's airwaves that "all important information belongs first to the leadership, not to society."

—This week political commentator Liu Sanchan told our audiences “so far, we haven’t seen and in the foreseeable future we cannot expect to see political reform in China. Even if SARS killed 10 million people, instead of just 300, the country’s closed political system would remain the same.” He was not being hyperbolic.

China wants to project an international image as an open country with progressive ideas. But, as the SARS disaster reveals, Beijing believes total control of ideas is still vital to national security. China’s government and particularly the Communist Party fear an informed population. In their minds, they see themselves as the sole defenders against chaos. To the extent that this is correct, China has not done enough to build a civil society based on politically neutral institutions and laws. Mao brought an end to 100 years of civil war. Deng changed the economy from a socialist collective to a capitalist semi-free market. Jiang Zemin gave us the “three represents.” He talked about political reform, but he never delivered.

China now has a new team in Hu Jintao and Wen Jiabao. SARS is their first challenge. They can choose between taking the same road as all their predecessors or they can use this crisis to start down the road to incremental political reform.

Unfortunately, the way the new leadership is handling the SARS crisis does not bode well. As the epidemic continues to spread, a number of health experts at the WHO and elsewhere continue to express dissatisfaction with China’s secretive handling of SARS statistics. WHO Spokesperson Peter Cordingley told us on May 22 that “when we look at the daily numbers reported by Chinese health authorities on the number of new infections, we wonder why they come down so quickly,” said. “And we are working on the theory that possibly not all SARS cases are being correctly identified.” To this day, China’s statistics remain dubious and uncreditable. There is a charitable interpretation of this situation - that China’s size makes collection of statistics difficult; there is always a huge difference between urban statistics and rural ones; this problem, combined with an unwillingness on the part of local officials to report bad news to the central government, makes them nearly impossible to assess accurately.

But there is no charitable way of interpreting the manner in which China has denied Taiwan access to SARS information. Responsibility for this must be laid directly at the door of the top leadership. Not only did President Hu and Premier Wen’s representatives at the World Health Organization succeed in denying Taiwan observer status at last month’s meeting, their ambassador to the United Nations this week blocked the New York-based director of Taipei’s Economic and Cultural Office from addressing the United Nations Journalists’ Association after the Association invited him to talk to them about SARS. It will be a long time before I am persuaded that President Hu Jintao and Premier Wen Jiabao were not responsible for this. Trying to force their brothers and sisters on Taiwan to face the SARS epidemic alone is an act as callous as anything Mao or Deng ever did.

Even so, the situation may not be hopeless. Conservatives remain strong but reformers, millions of what I call “underground dissidents” working within the system, want to reform politically and are determined to do so without causing the instability that the conservatives fear.

Yes, Hu and Wen face daunting problems, not the least of which is the dismantling of State owned enterprises and the impact that would have on the livelihood of 150 million urban workers. The list is long indeed. But they cannot really want to see the 2008 Olympic games be shrouded in a cloud of fear that athletes might compete in an event where mistakes affecting public health are secret? How much longer does China have to allow Party censors to stand between the people of China and the information they need to take control of their own lives?

We must not underestimate our ability to influence the pace of political reform in China. This Commission is positioned to recommend to the Congress and indeed to the Chinese a few painless steps that would begin the process of opening up politically.

The first step would be to invoke reciprocity between the number of Chinese government-sponsored journalists in the U.S. and the number of U.S. government-sponsored journalists in China. China has more than 40 government-sponsored journalists on our soil. VOA has been operating with only two in Beijing; RFA has none. The obvious remedy is reciprocity, which would mean either more visas for us or fewer for the Chinese.

And what about the ability of our journalists to travel around China with the ease of, say, a foreign tourist? We can accept that there are certain off-limits areas where problems exist or where China has military installations. But must we continue to accept that we cannot travel outside the Beijing metropolitan area without permission and an escort, whose expense we must pay? China’s U.S.-based reporters can go wherever they want; why can’t we do the same? Let the Chinese choose which field to play on; all we care is that it be level, reciprocal.

Given the SARS disaster, is it not time to ask the Chinese to end blocking our web pages? These pages are full of helpful information on SARS and have been since the crisis began.

Finally, let us ask the Chinese every day between now and the opening of the Olympics in Beijing in 2008 how they can expect the world to send its best athletes into their care if their government thinks the proper response to a health crisis is to cover it up?

China loves to see its flag flying alongside that of other nations. For this reason their leaders invest heavily in acquiring memberships symbolizing China's status in the international community. They believe their size and history automatically merit international respect and they should be granted privileges such as hosting the Olympics without having to prove anything.

China will someday realize that the free flow of information is a far truer mark of a civil society than joining the World Health Organization or hosting the Olympics. It is my hope that these hearings and the report of this Commission will serve to communicate this message to the Chinese leadership and that the next time a SARS-like crisis hits China, the first response will be to get the word out.

Chairman ROBINSON. Thank you very much, Mr. Henderson. I must say, before we move on, that your recommendations on reciprocity are particularly compelling. I had no idea personally that VOA and other of our government-sponsored news organizations are as restricted, and that we have such a lopsided arrangement. You can be confident that we're going to take very seriously these recommendations. So we thank you very much for your fine testimony.

With that, we'll turn to Mr. Southerland.

**STATEMENT OF DAN SOUTHERLAND, EXECUTIVE EDITOR, RADIO FREE ASIA**

Mr. SOUTHERLAND. Let me just try to be brief so we can have time, as much time as possible, for questions.

Jay has explained RFA's mission very well. We stand in as a free press, which does not exist in China. So I'm not going to go into a great description of what we do in that regard. I want to move straight on to an analysis of what I think the impact of this thing might be on media control.

And I also want to talk a little bit about the fact that we do make a difference, VOA, RFA, in our different ways, make a difference and an impact on the people of China. And I want to mention the shows that we do that really do relate and become interactive with the Chinese people. And if I can do that in 5 minutes it will be a miracle, but I'll try.

Commissioner DREYER. Talk faster.

Mr. SOUTHERLAND. Okay. The RFA broadcasts are 24 hours a day to China, in Mandarin, three Tibetan dialects, Cantonese, and the Uyghur language, which is, by the way, very unusual. We're the only people doing serious radio broadcasting in Uyghur to northwest China.

This is, one of the things we do best is our call-in shows, where people can dial an 800 number and get us. They don't always get us because there are about 30,000 people every month who can't get through to us. We can't handle all the calls. But what it does tell us is that we do have listeners out there, despite all this jamming.

There are people who are getting that 800 number and calling us up, and believe me, they have a lot to tell us about not only SARS but everything else. They are very good at discussing the

Chinese media. They are very savvy. They know they are being lied to, and they are some of the best media critics I have heard.

So we get a lot of our tips from them, and a lot of the stories that I have listed, the little scoops we had during the SARS crisis, which I hope is over, actually came from listener tips.

A guy in Inner Mongolia basically tipped us off that the Chinese were charging workers who had no money, trying to charge them for getting SARS treatment. The result was, the workers were fleeing from these hospitals and heading out to the countryside, potentially spreading this disease farther from Beijing.

So we really rely on this a lot. We have about four different kinds of call-in shows, one of which is strictly devoted to workers. And I don't see Commissioner Becker here today, but that's something I was hoping I could—

Commissioner WESSEL. There he is.

Mr. SOUTHERLAND. Oh, right, there he is. Okay. Excuse me for not addressing you directly.

We have a wonderful show where Han Dongfang, a former labor activist who works as a contractor for us, I can't get him on the phone because he's always on the phone with somebody in China. I spoke to him last night and he said, "Dan, I'm sorry I didn't answer your call. I know you're the boss, but I got to talk to these workers."

And everybody is talking about SARS, and what they're telling us is that they know they're being lied to, as I said.

Let me make a point which I don't make in my testimony, and that is that I want to pay a little respect to some of those hard-working Chinese journalists who do try to get the story out, despite the restrictions that Jay talked about. These guys have a lot of guts, and I know a number of them. In fact, I've hired a couple of them.

One of the first things I did when I got this job was to try to find good Chinese journalists, and there are a number of out-of-work Chinese journalists. And I went for the guys from what was called the World Economic Herald, which was shut down by Beijing after Tiananmen in 1989, and I've got two of those guys working for me.

But I do want to say that these guys work under very difficult conditions that you and I cannot imagine. And I wanted to read you just a note a Chinese journalist sent to a friend of mine. I think it was yesterday I got this note explaining the difficulty of doing stories on SARS. He was trying to do a SARS story and having trouble getting it published. I can't give his name, I can't describe him exactly, or he'll be in more trouble.

But this is what he said: "In China it is dangerous to directly cover something that the government warns us not to cover, so we have to use some kind of indirect ways. You know what I mean?" And then he says, "I'm very ashamed to be a newsman in such a country. In fact, there is no real news in our media. We're just a mouthpiece for a small group of people, and most of our people, the Chinese people, do not know the truth."

And I won't read any more of that, or he definitely will be in trouble. But that is very typical of how some of these guys feel. There are good journalists there. So it's the system, as Jay described it, that's really our big problem.

And I believe I've done my 5 minutes. I think I'll end it there with one brief comment. I think it's important to look at what the Chinese Government itself actually says internally to its propaganda people, and what they're saying is not that we're going to loosen up but that we're going to tighten up, as I read it. Now, I waded through a 10-page text a couple days ago with the thought of summing it up for you, from the top propaganda official in China. I actually met him twice in his earlier days as a mayor, as a party secretary and so forth.

And what he is saying when it comes to the Internet is that "We need to prohibit any harmful information." You can guess what that means. That would cover, I guess, everything related to SARS for a while there, for a few months. "We need to tighten up."

And just look at what happened within the last month. You've got four Internet journalists, recent college graduates, guys whose great crime was holding discussions about political change. They have been given prison sentences of 8 to 10 years. That happened May 28th. I mean, that's just a couple of days ago.

We also learned that a reporter and editor, one reporter and one editor, were suspended for publishing an article about university students and campus prostitution. This is a government that plays very rough.

They have paid little visits to the families of some of our broadcasters, our courageous RFA broadcasters, who also work under difficult conditions trying to get through to their sources. They might make 10 phone calls, until they get somebody who has got the courage to really tell a story or talk.

So that, I just wanted to put kind of a tribute to journalists at RFA, VOA, and over there, into this, so we don't sound like we're putting those guys down, because they are amazing and they help us out in very quiet ways.

And that's where I'll end it. I didn't make it in 5 minutes. I'm sorry. And then I'm not going to read from the prepared text, but I'd be glad to come back to it if you have questions.

[The statement follows:]

PREPARED STATEMENT OF DAN SOUTHERLAND

Mr. Chairman and Members of the Commission.

Thank you for the opportunity to address the Commission today. I appreciate your invitation to discuss Radio Free Asia's efforts to broadcast information to China on the SARS public health threat.

I would like to begin by giving a brief overview of Radio Free Asia's mission and broadcasts. I'll then move on to a description of how the Chinese media covered—or failed to cover—the SARS crisis, together with details on how RFA dealt with the epidemic. I'll follow with an analysis of the short and long-term impact of the crisis on media controls in China, closing with a short note on China's jamming of international broadcasts.

*Overview of RFA's Mission and Broadcasts*

Radio Free Asia (RFA) is a private, non-profit corporation broadcasting news and information in 12 languages and dialects to listeners in Asia who do not have access to full and free news media. RFA launched its first broadcast in September 1996. The purpose of RFA is to deliver accurate and timely news, information, and commentary, and to provide a forum for a variety of opinions and voices. RFA seeks to promote the rights of freedom of opinion and expression, including the freedom to seek, receive, and impart information and ideas through any medium regardless of frontiers, as stated in Article 19 of the Universal Declaration of Human Rights.

RFA's mission both reflects and promotes the highest ideals of the United States as well as East Asia's long and admirable tradition of truth-telling—and of speaking

truth to power. In the Analects, for example, Confucius is asked by a student how to serve a prince. Confucius doesn't advise the young man to blindly follow the prince's orders. Instead, he replies, "Tell him the truth. Even if it offends him." This truth-telling often runs counter to the dictates of authoritarian governments in the region, but the Chinese people deserve accurate, thorough, and balanced information. We hear this every day, in half a dozen languages and dialects, from callers all over China. To suggest otherwise underestimates the wisdom, resourcefulness, and intelligence of the Chinese people. We all know of talented Chinese journalists who work hard to report the news, but they do so under extraordinarily difficult conditions.

Via shortwave transmission and the Internet, RFA broadcasts daily to China, North Korea, Burma, Vietnam, Laos, and Cambodia in Mandarin, Cantonese, Uyghur, three dialects of Tibetan, Burmese, Vietnamese, Korean, Lao, and Khmer. Each language service is staffed entirely by native speakers and the programming of each service is distinctive, reflecting particular cultural and customary preferences. Most RFA programs focus on domestic news and information. RFA generally airs international news only when it directly affects one or more of the countries to which we broadcast.

All broadcasts originate from RFA's Washington, D.C., headquarters, incorporating reports from correspondents throughout Asia. RFA maintains bureaus in Hong Kong, Tokyo, Taipei, Phnom Penh, Dharamsala, Bangkok, Seoul, and Ankara, along with individual reporters in many other key locations in Asia, the United States, and other parts of the world.

Incorporated in the District of Columbia, RFA is a journalistically independent organization whose autonomy is key to providing objective news and information to its listeners. In preparing its programming, RFA follows the strictest journalistic standards of objectivity, fairness, quality and integrity, avoiding bias toward any people, government, or nation.

The U.S. Congress authorized the creation of RFA through the International Broadcasting Act of 1994. Funding is obtained from an annual federal grant. The bipartisan Broadcasting Board of Governors, appointed by the U.S. President with the advice and consent of the U.S. Senate, serves as RFA's corporate board of directors, making and supervising grants to RFA.

#### *Chinese Media Coverage of SARS*

The SARS epidemic has dramatized the degree to which the Chinese government and Communist Party continue to control the media in China. Early on, the government simply blacked out the news of SARS. After months of silence, outside pressure from the World Health Organization and information flowing in from the outside world forced the government to admit that China faced a "serious" situation.

As the Washington Post pointed out a few days ago, it was only on April 20, more than a month after the WHO issued a global alert about SARS, that the Chinese leaders admitted that a problem existed and launched a nationwide campaign to fight the epidemic. At that point, they permitted the state-controlled media to provide more comprehensive coverage of the SARS crisis.

China's turnaround on the issue came after a courageous retired military doctor, Jiang Yanyong, made a statement to Time magazine and then gave a number of interviews to foreign reporters in which he openly accused the government of a cover-up. He revealed that many more SARS patients were being treated in Beijing than the government and Chinese media had reported. That Dr. Jiang is no longer giving interviews to the foreign media is not a good sign: He appears to have been gagged.

#### *RFA's Coverage of SARS*

On February 10, RFA's Cantonese language service did the radio's first report on the outbreak of a mysterious disease described as atypical pneumonia—it was later to be called SARS—in Guangdong Province. At that point, no deaths had been reported but the Guangdong Provincial press office confirmed the existence of the disease. From that day onward, the Cantonese service began daily reporting on the SARS phenomenon. Correspondents in Taiwan and Canada began sending in regular reports of the spread of the illness overseas.

The Chinese media ignored SARS at the time. But recently, Gao Qiang, the No. 2 official at China's Health Ministry, claimed that the China media had sounded the alert through a brief article in the People's Daily published on February 12. The People's Daily article did report that five people had died of a pneumonia-like ailment in Guangdong. But, according to the Washington Post, the article also emphasized that the situation was "already basically stable" and that a widespread out-

break of the disease would not occur. China's propaganda authorities then banned all reporting about the disease.

Despite Mr. Gao Qiang's claims, the officially-guided Chinese media did little to alert the rest of the country that it might have a problem. Chinese Central Television (CCTV) declared at one point that China was not threatened by a new disease. Local officials said the atypical pneumonia was "under control." But Beijing denied access to a WHO team that sought access to Guangdong. WHO epidemiologists began within a few weeks to suspect that Guangdong was the starting point or "ground zero" for the disease and that the real number of cases in China was much higher than those 305 reported by the province.

In mid-February, RFA's Mandarin service prepared its first major investigative report on atypical pneumonia, when the Chinese state media was still virtually silent on the issue. From November 16 to February 9, Chinese health authorities in Guangdong had reported 305 cases of the disease. Among them were 105 physicians and nurses who had treated SARS patients. And, as stated earlier, at least five people had died. But the media made little of all this.

The RFA investigative report concluded that the local government was blacking out news of a mysterious new disease and that as a result of a dearth of information, people were panicking. In preparing this report, an RFA broadcaster telephoned hospital, medical supply, and research center officials in Guangzhou as well as local residents and officials in Heyuan city. RFA conducted the first interview of which I am aware with Dr. Zeng Jun, director of the First People's Hospital in Guangzhou. Dr. Zeng later became a credible source of information on SARS for a number of foreign journalists.

Despite the courage of some local officials and physicians who believed that the public had a right to know, people still had no clue as to how the disease was spread. They lined up outside stores to purchase rice, salt and vinegar, which were believed to prevent the pneumonia. One official in Guangdong, who declined to be named, criticized the local government for failing to release the news sooner. He told RFA that the more the government tried to hide the facts, the more panicky the public became.

In March, RFA's Mandarin and Cantonese services began to provide exhaustive coverage of SARS from areas that were hardest hit by the disease. Reporters in Hong Kong, Taipei, Toronto, Bangkok, and Washington all contributed to the effort. An RFA correspondent in Hong Kong who files RFA's regular "China media watch" feature pinpointed issues and facts concerning SARS that China's state-controlled media failed to report. The officially-controlled media still seemed reluctant to report anything of substance on the issue, and some listeners, particularly those in remote provinces, reported that they first learned about SARS in February from RFA.

One of those listeners, a first-time caller to RFA's Voices of the People call-in show from Hohhut in Inner Mongolia claimed that the official media had grossly under-reported SARS figures in that province. He said that probable and suspected SARS patients were being quarantined together with confirmed patients. People who had the symptoms were now afraid to go to the hospital for check-ups for fear of being placed near confirmed SARS patients.

In March, RFA's Mandarin service was the first to report that authorities in Beijing had suspended all classes at the Beijing Zhongguancun First Primary School because of fears that a student might have contracted the SARS virus. At times Beijing residents are reluctant to talk with RFA about sensitive issues, but a brave teacher at the school told a Mandarin service reporter that a fourth-grader's grandfather had a confirmed case of SARS. "We are responsible for the students, and we must tell the whole truth," the teacher said.

Listeners telephoning RFA's call-in shows indicated that SARS had become a much bigger issue for many people in China than the Iraq war or other major events that were grabbing world headlines. Some callers provided tips for news stories that our services would then seek to confirm.

Local officials began to talk more openly to RFA reporters about SARS, although some requested anonymity. Information from one official who was interviewed at the end of April led RFA to break the news that some hospitals were charging impoverished migrant workers the equivalent of hundreds of dollars to treat their SARS symptoms. This was occurring despite orders from the central government to waive medical fees for those who could not afford treatment. As a result, an unknown number of workers were fleeing the hospitals and returning home to rural areas where the health care system has been in decline. There was a very real danger that some of these workers might inadvertently spread the SARS virus.

The Mandarin service covered SARS from many angles in April, airing a variety of public reactions from inside China as well as expert opinion that was unavailable through the domestic media.

By early May, the Mandarin service was carrying as many as nine stories on SARS in each of its hour-long Asia-Pacific reports. Here are some examples of the physicians, officials, and health care experts interviewed for stories broadcast in April and May:

— Dr. Jiang Yanyong, the courageous physician at the People's Liberation Army Hospital No. 301, who stepped forward to reveal that those who had died or been infected in Beijing were a dozen times more numerous than top Chinese officials admitted.

— Directors of respiratory disease departments of Zhongshan Medical School in Guangzhou and at the Guangzhou First People's Hospital.

— A staffer with the Chinese Ministry of Health's SARS special task force.

— Dr. James Maguire, who was traveling with the WHO inspection team in Shanghai.

— Officials in the Henan provincial government and Xiong county government.

— Doctors, nurses and other health care workers in hospitals throughout China.

RFA's second largest service, the Tibetan service, also extensively covered the SARS epidemic. Although Tibet had been listed officially as one of the few SARS-free areas in China, Tibetans were vulnerable to the disease due to poor health care and lack of information. Authorities did not adequately inform the local people the danger of the disease, and some critical information was kept from the public. Reporters contacted people inside Tibet and learned that suspected carriers coming on buses from inland China to Lhasa had been quarantined and given medical checks. Trains arriving in Xining city were stopped outside the city limits and those suspected of being infected with SARS were taken away by medical workers. This information from Amdo area in Qinghai Province was promptly broadcast to the target area after being verified by other sources. As a result, we received calls from listeners saying that they would never have known of these things had they not listened to RFA's Tibetan broadcast.

Tibetan interviewees said that government health workers had failed to adequately inform people of the dangers of coming into contact with infected people. Those in rural areas where there is little or no access to modern medical doctors and facilities said basic information was particularly helpful. The Tibetan service, therefore, produced many educational programs by inviting Tibetan doctors to provide basis information on SARS.

The Tibetan service maintained daily contacts with emergency centers set up by the authorities in Lhasa and other areas. Personnel from these centers, after some persuasion, were very cooperative and willing to talk. Several times, the service facilitated medical and information inquiries between listeners and these disease emergency centers. One Tibetan student called to say that she learned a lot about the SARS situation in Tibet by listening to RFA.

Callers to RFA's Uyghur service hotline complained of a scarcity of information that left many Uyghurs unaware of the seriousness of the disease. The service provided Uyghur listeners with basic information from the World Health Organization.

Analysis of Short- and Long-Term Impact of the Crisis on China's Media Controls

The SARS crisis has raised hopes for a radical change in the Chinese media. In late April, the government fired the health minister and the mayor of Beijing and called for more accurate reporting on SARS from provincial officials. China's new president, Hu Jintao, appeared willing to seize on the crisis to promote more openness. The state media played up his visits to areas that were hit hard by the SARS crisis. He seemed to be shaking off the influence of his predecessor, Jiang Zemin, who has been no friend of press freedom, far sooner than many had predicted. Meanwhile, Chinese newspapers reported some details on May 6 of a Chinese submarine disaster. In a country where such events normally go unreported, this seemed to signal further change.

What we are seeing here is not better journalism but what the Wall Street Journal recently described as "new and improved propaganda." In this case, the Wall Street Journal was referring to the more attractive packaging and increased timeliness of some of China's state television programming, particularly when it came to coverage of the war in Iraq. But the comment might just as easily have applied to some of the recent coverage of the SARS crisis.

We have to keep in mind that ownership of the media is firmly in the hands of the Communist Party. And we must watch what leading Communist Party officials say about their own media, not just to the outside world, but to their own party cadres. Let's look, for example, at what the leading Communist Party official in charge of overseeing the party's propaganda efforts said in a recent issue of the

party journal Qiushi (Seeking Truth) published on its web site on May 1. Li Changchun, a member of the Politburo Standing Committee, said that propaganda units must raise public morale by highlighting the party's achievements while exposing any problems that provoke public anger and complaints. The party should also tighten controls over the Internet and "prohibit any harmful information." On a more positive note, Li said that the party's media organs must be run like commercial enterprises, become more market-oriented, and produce reports relevant to people's lives.

This would simply continue a long-standing trend toward making the media more profitable, lively and relevant, which is fine as far as it goes. But it is hardly a call for more openness. If anything Li emphasizes tightening up when he says, "propaganda through the Internet as well as management of the Internet must be intensified..."

What's missing is hard-hitting investigative journalism - the kind of reporting that would give the Chinese people the information they need to make up their own minds about the people who govern them. Many of the Chinese reporters who do this best have been silenced. Some of them have been jailed. Some have fled into exile. Some have gone into business. Others have succumbed to the lure of what is sometimes called "red envelope" journalism, a reference to journalists who produce favorable stories about those they interview in return for payoffs.

So far, the test of government tolerance for Chinese investigative journalism over the past few years has been the Nanfang Daily Group, a publishing company based in Guangzhou. The Nanfang Group publishes Southern Weekend (Nanfang Zhoumo), a paper that has gone far beyond the norm in exposing official corruption. But the Nanfang Group has paid a price. Last year, the provincial authorities demoted several editors and banned one reporter from ever working as a journalist again. This year the provincial propaganda department tightened its grip on the group by appointing a hard-line official as Southern Weekend's editor. In mid-March, the propaganda department shut down another of the group's publications, the 21st Century World Herald. Its crime was to have run an interview with a former personal secretary to Mao Zedong who criticized Mao for creating a personality cult and who praised the late Communist Party leader Hu Yaobang, who was a hero to many of the student protesters at Tiananmen Square in 1989.

Over the long-term, the real test for the Chinese media will not be the handling of SARS which, after all, was affected by tremendous international pressure, but whether it can tackle any of the long list of taboo subjects that are still off limits to serious investigation. I have compiled my own list, which includes, among other things, the following subjects: China's widespread worker and farmer protests, discrimination against minorities, coercive family planning, jailing and torture of dissident and Falun Gong members, the government's failure to curb a burgeoning AIDS crisis, Taiwanese attitudes toward the mainland, and criticism of government leaders. RFA covers all of these issues, and this has aroused much hostility from the Chinese government.

#### *China's Jamming of International Broadcasts*

China's government is determined to block its citizens' access to Radio Free Asia. Beijing commits a great deal of money and manpower to this effort. It uses its political influence to lobby aggressively throughout Asia to prevent governments from leasing transmission facilities to RFA. Since RFA's inception in 1996, China has steadily increased its level of jamming and blocking every year. As one caller from Shandong Province reported, "The jamming has been really bad recently-it's almost impossible to understand. It's a lot worse than before." This has forced RFA and the International Broadcasting Bureau, which provides engineering support to RFA, to spend more to fight the blocking.

During RFA's extensive coverage of the SARS epidemic in China early this spring, RFA's listeners throughout China called and wrote to report that jamming had become even more severe than before. In April, Internet traffic to [www.rfa.org](http://www.rfa.org) directly from China more than doubled, reaching its highest levels ever as people, desperate for information, found a way to reach RFA. On May 4, China closed these remaining Internet loopholes, and traffic to RFA from China crashed to its lowest levels in 2003 and has remained there for the past 30 days. Now our listeners look for the next breakthrough or lapse in the Chinese blocking to once again gain wide access to RFA content. Today, the IBB provides valuable support to RFA by establishing proxy servers and special e-mail newsletter's support. The most dedicated and computer-savvy RFA Internet listeners continue to reach us through these means. RFA also sends daily e-mail newsletters to hundreds of thousands of e-mail addresses in China.

RFA is convinced that an open Internet would permit vital information to reach millions of Chinese people each week. Unjammed shortwave signals in China could, in my opinion, attract many millions more and would significantly cut the costs of broadcasting. But until we can break through the barriers and make ourselves known and available to the average Internet user, RFA won't achieve its full potential. As my colleague from VOA has said, we must find solutions to end the jamming of broadcasts and the blocking of web pages.

I'd like to close by quoting one of our Chinese listeners, a retiree from central Anhui Province, who phoned our "Listener Hotline" in May to complain about jamming but also to thank RFA for broadcasting. He wanted to let us know that he remains determined to circumvent whatever obstacles the Chinese government might deploy. "Some of us think that the interference is quite serious," he said. "In fact, all the comrades who listen to Radio Free Asia... find to their surprise that you can actually hear a radio station that speaks the truth, and you should feel happy and fortunate. This is a rare opportunity. From my experience, the interference is indeed not continuous. It continues for a while and then it will be over and you can hear the program again...I think that all the audience should cherish this rare window that allows us to breathe in the air of freedom."

Chairman ROBINSON. Well, thank you for a very fine testimony on this subject, and I'd like to turn the microphone over to Mr. Berman at this time.

**STATEMENT OF KEN BERMAN, MANAGER, ANTI-CENSORSHIP PROGRAM, INTERNATIONAL BROADCASTING BUREAU**

Mr. BERMAN. Thank you, Mr. Chairman, Mr. Vice Chairman, and members of the Commission. I'm very pleased to have the opportunity to address the Commission today on the issue of Internet information control and censorship by China. I have been involved with developing solutions to this vexing problem for the past several years, and hope to share with you some of our findings and conclusions. I would like to discuss some of our technical efforts to allow users in China to get unfiltered, uncensored access to news about SARS and about other key issues of the day.

The Office of Engineering and Technical Services is responsible for delivering program content for the various services that report to the Broadcasting Board of Governors, the BBG. These services include the Voice of America, Radio Free Asia, Radio Free Europe/Radio Liberty, Radio and TV Marti, which broadcasts to Cuba, and several other services.

The traditional way for distributing these programs has been via radio—shortwave, AM, and FM. Our office works closely with fellow international broadcasters and the International Telecommunications Union, the ITU, part of the United Nations, to coordinate the appropriate broadcast frequencies to ensure that there is no intentional interference between broadcasters.

Before I tell you about my work with Internet jamming, I did want to inform you that the Chinese regularly jam all of the Voice of America and Radio Free Asia radio programs, in clear violation of accepted international rules and regulations followed by almost all other nations. This jamming consists of playing endless loops of Chinese opera music at the same time and on the same frequency as VOA and RFA broadcasts. Despite numerous official protests by BBG via the FCC and the State Department, the radio jamming continues unabated.

The Internet is becoming a critical component in distributing program materials to those countries that are or are becoming "wired". And China is the most "wired" of all the large countries to which VOA and RFA send their programs. I just attended a con-

ference on China and the Internet at the University of Southern California, and it was interesting to hear the various U.S. and China scholars debate how many Internet users there were. Estimates ranged from 39 to 63 million people.

In any event, what the numbers do tell us unequivocally is that China has the most Internet users after the United States, and considering their huge growth rate of new users and the small fraction of their population that currently has an Internet connection, it is clear that they will be the largest Internet audience in the world in the not too distant future.

As has been discussed by many experts on the subject of China and the Internet, the Chinese are attempting to have it both ways: Use the Internet as driver for knowledge transfer and business development, while ruthlessly suppressing any attempt to question the policies of the Chinese Communist Party, to discuss the rulers in any but glowing terms, or to use the Internet for issues as diverse as Tibetan freedom, Taiwan independence, pro-democracy movements, or religious groups such as Falun Gong.

VOA and RFA came under the cross-hairs of this censorship effort when they tried to send e-mail summaries of the news specifically requested by Internet users in China. These same users, when they could get a message through, informed us that the VOA and RFA web sites could not be accessed from inside China, whether it be from home, office, or an Internet cafe.

As a result of this censorship, and considering the critical importance of China to U.S. policy interests, a special unit was developed to devote technical resources to this problem. What we have essentially instituted is a two-prong "push-pull" program that consists of separate but related efforts.

The "push" component consists of pushing e-mail news to those users in China who would find the news interesting, useful, or a necessary complement to the official approved news stories. The "pull" component consists of allowing users the ability to access the VOA and RFA web sites and pull Internet content into the browsers of their computers. I would like to give you a few comments on these two efforts, and then inform you of some of the other activities we are working on.

The e-mail component of the program allows the VOA and RFA journalists to assemble summaries of critical Chinese, U.S., and international news stories each day into an easy to read Chinese language e-mail. The e-mail is distributed by our office, using techniques that will do the most to ensure the message will get through the filtering mechanisms of the Chinese Government.

At this point, in the interest of time, I will skip describing the more technical aspects of how the Chinese Government blocks and censors the Internet, but I invite the Commissioners to read my written testimony which goes into several pages of specific detail on that.

One thing I do want to mention is the bold move, if that is the right word to describe what the Chinese have started doing under the name of DNS redirection or hijacking, a dynamic name server system. This phenomenon was first noticed by Bill Xia of Dynamic Internet Technology, who will be speaking to you this afternoon.

It is a severe violation of the trust various computer systems use to communicate with each other, and it consists of going into this DNS system and inserting one's own lookup listing. This is similar to rewriting selective pages of a phone book, inserting them under cover of darkness, and letting unsuspecting users be directed to the wrong address or phone number. This results in users in China being unknowingly redirected to different web sites than expected, sites that are controlled or approved by the government.

Skipping all this, we send millions of e-mails a week, and the response has been overwhelmingly positive to the VOA and RFA language services' news summaries and information on local, Chinese, and international news.

Related to this "push" component is the "pull" component. On each of the e-mails we include from two to six different proxy sites. Just as in proxy voting, a proxy computer or server is simply one that is standing in for another computer. Proxy computers have many purposes, such as making communications more efficient and helping organizations keep out bad or malicious users.

In our case, we are using the proxy sites we have developed to stand in for blocked and forbidden sites. By that I mean that even though VOA and RFA are blocked, chances are that [www.kenberman.com](http://www.kenberman.com), for instance, is not blocked, at least not yet. So if we distribute the name [www.kenberman.com](http://www.kenberman.com) to our Internet users via our e-mails, the users will be able to click on this presumably unblocked site.

Once they hit the site, a Secure Socket Layer or SSL connection is established, and this is the same type of secure connection that is made when you do a credit card sale, virtually unbreakable. So upon connecting to the proxy site, the user is given a secure connection, the same kind used in e-business, and not by itself incriminating, and landed on either a VOA or RFA Chinese language home page, depending on whose e-mail it is that was sent out.

From there the user can explore VOA or RFA news and feature stories in detail and can stream audio programs. Moreover, in line with our desire to promulgate global Internet freedom, we have a "jump" bar in all of our proxy web pages. These allow the users to enter an Internet address and explore any other site in the world he or she would like to connect to, including controversial political sites, religious sites, business or school or educational sites.

By the way, MIT was recently blocked by China because there was a Falun Gong student information link. So using these proxy sites, people, students could go to MIT and anyplace else they wanted. We do filter pornography, however, and also have geographic tracking to make sure that only addresses that originate in China are able to use these services, not individuals elsewhere who may want to use these tools to avoid paying for commercial proxy services.

We have received thousands of unique visitors each day on each of the proxy sites, and most of the traffic has been to VOA and RFA, with Chinese alternative news and social sites running second. As I described above, eventually the Chinese Internet police learn the name and address of the proxy, and then we change it, distributing the new proxy names via the e-mails. So the e-mail

and web proxy techniques work hand-in-hand to break through the “Great Firewall” of China.

But, as proxy hunting and methods to distinguish e-business traffic from other types of secure traffic get better, this method can only go so far, which means we are engaged in a continual process of evaluating new technologies. One of the most promising is the so-called peer-to-peer, P2P, technologies.

A true peer-to-peer lets thousands of individuals set up their computers as mini-web servers or file servers. Just as in a large crowd—and one P2P system is called Crowds—messages can be passed via numerous paths, and stopping a message is virtually impossible.

We support research on systems such as Freenet-China, 6/4—named after June 4th, Tiananmen Square—and others to ensure that systems are efficient and trustworthy. Once those systems are in place, it is virtually impossible to block or filter. This means that if we can help establish such a system and can access one node, the news and information can propagate freely through the system.

Another promising area is Short Message System, SMS, text messaging, cellular telephone networks. According to Duncan Clarke of BDA China, a leading China-based telecommunications consulting firm, China now has the largest number of cell phones in the world, 220 million, and growing by millions each year.

Most of the existing, and all of the new phones, are SMS capable. This means that news can be potentially streamed to the phones. Another application is to text message to individuals the proxy address of the day, who can then use that address to access the news via their computer. Streaming of audio and video programs, using Instant Messaging, and taking advantage of the huge number of on-line games players, also present promising avenues of research.

As unfortunate as SARS is, it has been a boon to the freedom of information movement. Our news is anxiously followed. The VOA and RFA Chinese language traffic has doubled, and has allowed Chinese citizens free, unfettered access to a wide range of previously censored information. E-mail news now includes daily SARS reports and statistics, and links to WHO—World Health Organization—and other sites.

We feel we are making progress in this attempt to break through the “Great Firewall,” but it is truly a cat-and-mouse game, and only by continuing to explore, test, and implement new techniques will we be sure we can stay successful. Our program has generated a wide range of support from academia, business, NGOs and think-tanks, and we look forward to leading the effort to allow people in censored regimes to have free access to news and information.

[The statement follows:]

PREPARED STATEMENT OF KEN BERMAN

Mr. Chairman and Members of the Commission.

I am very pleased to have the opportunity to address the Commission today on the issue of Internet information control and censorship by China. I have been involved with developing solutions to this vexing problem for the past several years and hope to share with you some of our findings and conclusions. I would like to discuss some of our technical efforts to allow users in China to get unfiltered, uncensored access to news about SARS and about other key issues of the day.

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The Internet is becoming a critical component in distributing program materials to those countries that are—or are becoming—“wired.” And China is the most “wired” of all the large countries to which VOA and RFA send their programs. I just attended a conference on China and the Internet at the University of Southern California, and it was interesting to hear the various US and China scholars debate how many Internet users there were: estimates ranged from 39 to 63 million. In any event, what the numbers do tell us—unequivocally—is that China has the most Internet users after the United States, and considering their huge growth rate of new users and the small fraction of their population that currently has an Internet connection, it is clear that they will be the largest Internet audience in the world in the not too distant future.

As has been discussed by many experts more knowledgeable than me on the subject of China and the Internet, the Chinese are attempting to have it both ways: use the Internet as a driver for knowledge transfer and business development, while ruthlessly suppressing any attempt to question the policies of the Chinese Communist Party, to discuss the rulers in any but glowing terms, or use the Internet for issues as diverse as Tibetan Freedom, Taiwan independence, pro-democracy movements, or religious groups such as Falun Gong. VOA and RFA came under the cross hairs of this censorship effort when they tried to send email summaries of the news specifically requested by Internet users in China. These same users, when they could get a message through, informed us that the VOA and RFA web sites could not be accessed from inside China, whether it be from home, office, or an Internet cafe.

As a result of this censorship, and considering the critical importance of China to U.S. policy interests, a special unit was developed to devote technical resources to this problem. What we have essentially instituted is a two-prong “push-pull” program, that consists of separate but related efforts. The “push” component consists of pushing email news to those users in China who would find the news interesting, useful, or a necessary complement to the official, approved news stories. The “pull” component consists of allowing users the ability to access the VOA and RFA web sites and pull Internet content into the browsers of their computers. I would like to give you a few comments on these two efforts, and then inform you of some of the other activities we are working on.

The email component of the program allows the VOA and RFA journalists to assemble summaries of critical Chinese, US, and international news stories each day into an easy to read Chinese language email. The email is distributed by our Office using techniques that will do the most to ensure the message will get through the filtering mechanisms of the Chinese Government. Originally, the VOA emails were sent from one of VOA’s openly labeled voa.gov email servers. It was discovered about 18 months ago that very few of the messages were getting through. The Chinese were in the early stages of developing their censorship technology, using computer technologies primarily provided by US companies. Over the past year, they have continued to buy this equipment, and have also started indigenous manufacturing of these computer network routers. At this time, before I continue with the discussion on the email program, let me say a few words about the actual techniques of their censorship.

While many companies, libraries, and organizations exert some form of restriction on their users ability to access any and all sites, the Chinese use every possible technique and are continuing to refine their methods. Internet locations are defined

by a numerical address, known as the IP (or Internet Protocol) address. Since people, unlike machines, find numbers difficult to remember, a naming system has been developed whereby people use names, and computer systems translate those names into numbers. This way the machines can connect to each other while human users simply use normal names. This known as the Domain Name System and, like the airwaves, is governed by rules and regulations, but also a certain amount of trust; more about that later.

The Chinese Government can easily find the IP addresses of VOA and RFA and enter them in their computer router tables, with the instruction to block any traffic from the servers or any requests for information to those servers. These computer routers serve as electronic “gatekeepers” at the country’s border, and are known as border routers. They are a brute force solution to the problem of censoring unacceptable sites. They do work in keeping the Chinese user separated from computer sites that have been “black listed,” so to speak. But, since several, sometimes many, organizations share an address or group of addresses, this kind of blocking may keep out traffic for which there is no fear by the Chinese. This is the reason some sites that are completely harmless to the Chinese may not be accessible: they share an address or group of addresses with a censored site.

To improve their ability to focus their blocking efforts, they will also filter the actual word name of the site, as in [www.voanews.com](http://www.voanews.com) or [www.rfa.org](http://www.rfa.org). This way, anyone coming or going to the name VOA or RFA will be denied access. This is generally accomplished by finding what Domain Name Server does the translation from name to IP address and blocking that. Thus, the user will be denied the ability to find out how to convert [www.uscc.gov](http://www.uscc.gov) into an actual address computers can use, and will not be connected. In an even bolder move, if that is the right word, the Chinese have started using DNS redirection, or “hijacking”. This phenomenon was first noticed by Bill Xia of Dynamic Internet Technology, who will be speaking to you this afternoon. It is a severe violation of the “trust” various computer systems use to communicate with each other, and consists of going into the DNS system and inserting one’s own lookup listing; this is similar to rewriting selective pages of a phone book, inserting them under cover of darkness, and letting unsuspecting users be directed to the wrong address or phone number.

The latest developments have been URL filtering and content filtering. URLs (Universal Resource Locators) are the addresses that we read. But, a full URL, especially when doing a search, consists not only of the URL, but text following the URL. For instance, if you were doing a search on [www.google.com](http://www.google.com) for “US Congress”, you would generate a URL that might be [www.google.com/?word:US+word:Congress](http://www.google.com/?word:US+word:Congress). This way, with URL filtering, the filter could allow traffic to google to pass, except when some of the key words that the user was searching for were included. This is exactly what happened during the “google” blocking controversy several months ago. Initially the Chinese Internet censors blocked access to all of google, using the more brute force methods described above. After an outpouring of protests from students, business leaders, and anyone else using the English or Chinese versions, the Chinese introduced their refined techniques. Essentially, this consists of looking not just at the site, but at the page or search one would like to do at that site. If it passes the test, the request is allowed to go through. If not, the user is not only denied the request, but is put in what I call the “penalty box” for twenty minutes to days at time. Reports differ, but our experience is about one hour for the first violation, two hours for the second, and a day for the third. Thus if one did a google search on apples, the search goes through. If the search is on “pro-democracy”, the request is denied and the user is disconnected, i.e. prevented from making any more request to or from any part of the Internet.

The latest and most sophisticated element of filtering that is now in place is content filtering. Even if the IP address, the basic URL address, and the full URL address contain no “objectionable” material, but the returned web page has some forbidden word buried deep within it, the communication is blocked. For instance, if one went from China to an overseas LexisNexis database and was researching the history of the USA, and the word “democracy” appeared on page 10 of a 12 page document, the overall communication would be prevented. Our latest research, observed on a Chinese Academy of Social Sciences web page (since removed) mentioned “emotional context sensitive” filtering. This would mean that if the sentence read “I hate Falun Gong” the page could go through, but if the sentence on the web site said “More information on Falun Gong”, i.e. a neutral or favorable emotional context, the page would be blocked. This would make the Chinese efforts less noticeable to many Chinese Internet users, but would be much more insidious in its ability to closely regulate specific types of speech and expression.

Back to the question of our email program, you can now see that all emails from VOA's or RFA's IP address, its URL name, and any controversial content was being blocked. This was not acceptable, and working with some state of the art experts from think tanks and industry, we developed techniques to get the emails through to their intended audience. We also do key word substitution to make sure that the contents of the message would get through. To do this, we change some words, but keep the meaning. For instance, to use an example in English, "democracy" might be changed to dem0cracy" and neither dem, 0, or cracy would trigger the content filtering. In addition, we take extraordinary care to make sure that these VOA and RFA emails only go to users inside China. After all, there is no need to devote the elaborate resources to Chinese readers in Singapore, Taiwan, or any other areas with Chinese readers and no technical censorship issues.

We send millions of emails a week, and the response has been overwhelmingly positive to the VOA and RFA language services' news summaries and information on local Chinese and international news. Related to this "push" component is the "pull" component. On each of the emails we include from 2 to 6 different "proxy" sites. Just as in "proxy" voting, a proxy computer or server is simply one that is standing in for another computer. Proxy computers have many purposes, such as making communications more efficient and helping organizations keep out bad/malicious users. In our case, we are using the proxy sites we have developed to stand in for forbidden sites. By that I mean that, even though RFA and VOA are blocked, chances are that [www.kenberman.com](http://www.kenberman.com) is not blocked (at least not yet!). So, if we distribute the name [www.kenberman.com](http://www.kenberman.com) to our Internet users via our emails, the users will be able to click on this presumably unblocked site. Once they hit the site, a Secure Socket Layer connection is established. This is the same type of secure connection that is made when you make a credit card sale - virtually unbreakable. So, upon connecting to the proxy site, the user is given a secure connection (the same kind used in e-business, and not by itself incriminating) and landed on either a VOA or RFA Chinese language home page. From there, the user can explore the VOA or RFA news and feature stories in detail and can stream audio programs. Moreover, in line with our desire to promulgate global information freedom, we have a "jump" bar in all of our proxies. These allow the user to explore any other site in the world he or she can connect to, including controversial political sites, religious sites, business or school/educational sites (MIT was recently blocked by China because there was a Falun Gong student information link). We do filter pornography, however, and also have geographic tracking to make sure that only IP addresses that originate in China are able to use these services, and not individuals elsewhere who may want to use these tools to avoid paying for these services.

We have received thousands of unique visitors each day on each of the proxy sites, and most of the traffic has been to VOA and RFA, with Chinese alternate news and social sites running second. As I described above, eventually the Chinese Internet police learn the name and address of the proxy and then we change it, distributing the new proxy name via the daily emails. So, the email and web proxy techniques work hand in hand to break through the Great Firewall of China. But, as proxy hunting and methods to distinguish e-business traffic from other types of secure traffic get better, this method can only go so far. Which means we are engaged in a continual process of evaluating new technologies. One of the most promising is the so called peer to peer, or P2P, technology. The most famous example was Napster, though Napster had a main control computer that, when shut down, killed off Napster. True P2P lets thousand of individuals set up their computers as mini-web or file servers. Just as in a large crowd (one P2P system is called Crowds), messages can be passed via numerous different paths and stopping a message is virtually impossible. The two things to worry about in that situation are message integrity (i.e. did it inadvertently change form during the course of transmission) and trust (i.e. did one or more people in the crowd intentionally change the meaning to further their ends). We support research on systems such as Freenet-China, 6/4, and others to ensure that the systems are efficient and trustworthy. Once those systems are in place, it is virtually impossible to block or filter. That means if we can help establish such a system and can access one node, the news and information can propagate freely through the system.

Another promising area is Short Message Text (SMS) cellular telephone networks. Per Duncan Clark of BDA China, a leading China based telecommunications consulting firm, China now has the largest number of cellular phones in the world: 220 million and growing by millions each year. Most of the existing, and all the new phones, are SMS capable. This means that news can be potentially streamed to the phones. Another application is to text message to individuals the proxy address of the day, who can then use that address to access the news via their computer. Streaming of audio and video programs; using Instant Messaging; and taking ad-

vantage of the huge numbers of on-line game players also present promising avenues of research.

As unfortunate as SARS is, it has been a boon to the freedom of Internet information movement. Our news is anxiously followed, the VOA and RFA Chinese language traffic has doubled, and has allowed Chinese citizens free/unfettered access to a wide range of previously censored information. Email news now includes daily SARS reports and statistics, and links to WHO and other sites.

We feel we are making progress in this attempt to break through the Great Firewall, but it is truly a cat and mouse game, and only by continuing to explore, test, and implement new techniques will we be sure we can stay successful. Our program has generated a wide range of support from academia, business, NGO's and think-tanks, and we look forward to leading the effort to allow people in censored regimes to have free access to news and information.

Chairman ROBINSON. Thank you very much, Mr. Berman.

### **Panel I: Discussion, Questions and Answers**

We would like to now move into the question and answer period, with the caveat that Representative Cox may appear at any moment at this time, at which point we would interrupt the proceedings to hear from him, as I mentioned. And with that, I would like to open the floor to Commissioners' questions. Commissioner Bryen?

Commissioner BRYEN. First of all, I really appreciate the testimony all of you gave today. It was frank and direct and had a great impact on me.

Second, I am delighted to see that a very strong technology effort is being made to find ways to get the message into China. I didn't know much about this, and it seems to me it's very much on the right track. In fact, I was going to ask about the use of cellular phones as not only a way to use SMS messages—which are restricted in length, I think it's 150 characters, but I'm wondering about using telephones to produce audio messages. You mentioned using 800 numbers for conversations and other means. Is this an area that would essentially put the radio on the telephone? Would this help? And I'd like to get Mr. Berman's comments and any other comments that may be available.

Mr. BERMAN. Let me address the first part of the question. If we did use SMS, it would be to simply transmit the proxy information, the name of the site that you could go to, and we could update that daily. We have found that the Chinese Government takes various periods of time to block a proxy site, so by being able to gauge when they are blocking it, we can immediately introduce a new proxy and allow the unfettered flow of information.

Generally the telephone system, it's a dialed system, and it would be difficult. We don't have control over the ability to do thousands of dial-ups. It's a public switch telephone network. The SMS system generally travels and moves independently of the switch network, so we were able to, not necessarily with the user's agreement all the time, able to send a message straight into their text messaging system. We wouldn't be able to do that with the dial-up telephones, we don't think.

Commissioner BRYEN. I have another question I'd like to follow up with. To your knowledge, are American companies helping the Chinese Government institutions and organizations to block Internet traffic? In other words, is there a technology transfer from the United States to China through U.S. companies that's assisting them in this?

Mr. BERMAN. Absolutely. Totally unambiguous. There are U.S. companies, with their advanced router and server technologies, that are supplying the equipment.

Interesting story, though, is that Cisco being the main provider of a lot of that equipment, that there is a company in China that has reverse engineered some of Cisco's equipment and was starting to make their equipment without being licensed, and now Cisco is upset and has sued this company. So it works both ways, but yes, they are definitely imparting that advanced technology.

Commissioner BRYEN. Does this include software help, such as showing them how to block?

Mr. BERMAN. Yes, it includes the kind of filtering that is used in various organizations, web-nannies, more sophisticated blocking tools, the software and the hardware.

Commissioner BRYEN. Don't you think it should be illegal for American companies to be doing that, given the consequences of it?

Mr. BERMAN. I think that's a wonderful question to evaluate. I personally think it's a violation of the trust that our country has placed in these companies, and I hope it is addressed by the Commission.

Commissioner BRYEN. Well, I would recommend very strongly to the members of the Commission that this is an area that we look into. We have opened up technology trade with China on a wide basis, sometimes recklessly, but in this particular area we're harming ourselves, I think, and harming the rest of the world by making it easier for the Chinese Government to suppress information. So I thank you very much for your testimony, and I urge the Commission to take this up.

Chairman ROBINSON. We certainly will, Commissioner Bryen. I think that's a terribly important subject.

Chairman ROBINSON. I'd like to take a moment in our proceedings to welcome Representative Chris Cox, who as most of you know is the principal sponsor of the Global Internet Freedom Act, a subject, Representative, that we have been focusing on in the course of this hearing, using SARS as an illustration of how serious a problem this can be, not only in the health arena but in numerous others, including our security relations. And I should add that Representative Cox made introduction of this bill a first order of business at the beginning of this 108th Congress.

Representative Cox serves as Chairman of the House Republican Policy Committee, as well as Chairman of the new Select Committee on Homeland Security. He has been a long time opinion leader on China, including his very able chairmanship of the Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China, that as you all know has become affectionately known as the Cox Committee.

So all of us are particularly pleased that he could be with us today. We certainly respect your tight timetable, and want to turn over the floor at this time. Thank you, Representative Cox.

#### **STATEMENT OF U.S. REPRESENTATIVE CHRIS COX**

Representative COX. Thank you very much, Mr. Chairman, and I want to thank our distinguished witnesses as well as the other members of this panel for your time and expertise today. These are

important topics. We have all learned of the tragic consequences, measured in the loss of hundreds of innocent lives, of government control of the news.

In this case the systematic denial of the truth about SARS undoubtedly and demonstrably has contributed to the spread of the disease, to the infection of innocent people, and to the deaths of innocent people. The government in Beijing controls not only newspapers and magazines and bulletins and paper, but also radio and television and even the Internet. We can all hope that this deadly lesson will lead to greater openness on the part of the regime, but that hasn't happened yet.

This morning, Mr. Chairman, I chaired a meeting of the House Policy Committee at which our presenters included legislators from Hong Kong who, because they are only 20 against the 40 who stand with the government, are powerless to prevent the extension of some of the worst aspects of the PRC's control over the media and over public speech and discourse to Hong Kong. It's something about which we should be very, very concerned.

Last week four Chinese journalists in the PRC were sentenced to prison terms ranging from 8 to 10 years for posting statements on the Internet that were critical of the Communist Party. This week one of these journalists, Xu Wei, began a hunger strike to protest the abusive treatment that he and his colleagues have suffered since they were first arrested and detained over a year ago. According to the group Human Rights Watch, that abuse includes electric shocks and beatings.

In fact, the communist regime is not simply continuing to apply its broad, unchecked authority to punish those who dare to exercise their rights to think and to read and to speak, it is expanding this authority. One can hope, as I said, that the SARS episode will turn that around, but we also have to rely upon our experience, including the news that we receive as recently as today.

The Chinese Government sadly is not alone in its repressive treatment of news and information and of individuals' rights to speak. In particular, they are not alone in seeking to control the Internet and to use it not for what it is best suited, and that is a marvelous means of global exchange of ideas and information, but rather as a tool to spy on people, to arrest them, to imprison them for what they are thinking and writing.

They have been aggressively blocking access to the Internet, monitoring Internet activity, and punishing those who seek to share information using the Internet. Last month, web publisher Huang Qi, after enduring a 3-year detention, was finally sentenced. He got 5 years additional in prison for the crime of publishing on the Internet.

What was he publishing? The equivalent of our milk cartons, our milk carton labels with information about missing persons. His site allowed people to share information about missing friends and family members, and actually helped rescue several young girls who had been abducted and sold into marriage. But because his site was critical of the lack of activity by state-run agencies, he now spends his days in prison.

Because of cases like this one and numerous others around the world, last year I and Representative Tom Lantos authored the

Global Internet Freedom Act, to create a new Office of Global Internet Freedom within the International Broadcasting Bureau. The office would develop and implement a global strategy to combat state-sponsored and state-directed Internet jamming and state persecution of those who use the Internet.

In the current Congress this bill is known as H.R. 48. It has been included and adopted in the House version of the State Department reauthorization bill.

Of course, when we originally conceptualized this initiative, SARS was unknown to us. This tragic incident, however, has provided a case study on the need for this legislation. It demonstrates both the promise of the Internet in allowing the spread of vital information, and the horrible human toll when the truth is suppressed.

As we now know, while Chinese official media denied the existence of SARS for so long, the Internet provided the first trickle of information out of China, as Western web crawlers picked up chatter on this deadly new disease. So, too, the news became more difficult for the regime to ignore as increasing Western coverage of the death toll, coming back into China via the web, made it increasingly difficult to sustain the cover-up.

But the long period between first discovery of SARS late last year and official acknowledgement by the regime on April 18th of this year, and the numerous deaths that occurred as a result, couldn't have happened without the regime's aggressive and often successful blocking of independent reporting and discussion via the Internet.

All of the available media, Internet included, are important for purposes of human rights exercise, but I would venture that the Internet, with its growing population of users, represents the greatest opportunity for truly democratic free expression and communication.

Mr. Berman on your panel today has noted the success that outlaw regimes now enjoy in jamming traditional broadcasting. H.R. 48 is an opportunity to capitalize on America's technology leadership by bringing to so many millions of enslaved people around the globe, not just in China, the tools to outwit the thought police.

So I want to commend this Commission and you, Chairman D'Amato, for your outstanding work on the issue of censorship in China, and for gathering this esteemed panel which includes some of the leaders in bringing technology to bear on this problem. There are a number of technologies which many of us have been educated about, and in fact some of your guests today have developed it, to get around the PRC's "Great Firewall."

And there are new ones which, at the request of the technology developers, I am not going to mention today because the regime may not yet be aware of them. I'm afraid my testimony today may be a terrible disappointment to any apparachiks in Beijing who will be pulling it down from the net. They have access. But I nonetheless appreciate the time that you have afforded me this morning.

Chairman ROBINSON. Well, thank you, Representative Cox. You have been a champion on this issue, and I know that will continue, as well as so many other issues, particularly in the national security arena.

Do you have a moment, were there to be a question or two?

Representative COX. Sure.

Chairman ROBINSON. Commissioner Wessel?

Commissioner WESSEL. Good morning, Representative Cox. Thank you for being here. Just prior to your appearing here this morning, Commissioner Bryen raised a question which I would love to have your views on as well, which is, Mr. Berman indicated that some U.S. companies, their software, their hardware, their technology might be used to assist the Chinese in blocking Internet freedom.

Mr. Berman suggested that we look into how the U.S. Government might deal with U.S. companies that are assisting in that, and I would like to get your ideas as to what we should do about that. There is always the argument that if we don't provide, Cisco doesn't provide the routers, that Germany, France, or someone else will do so, and that therefore we should do nothing about this. What do you think this Commission should be looking at as it relates to the U.S. companies potentially assisting the Chinese in blocking the Internet?

Representative COX. Well, it's a perfectly legitimate avenue of inquiry. It's an important question to ask. It's also a classic example of the dual use problem. It's very difficult to imagine technology of this sort, routers, switches, and so on, that don't have perfectly legitimate uses.

Some technology might neatly fall into the category of only pernicious use, but by far the lion's share is going to put you smack dab in the middle of a gun control debate: Is it the gun or the guy who pulls the trigger? And is it possible to control this?

Indeed, that may be even more stark than the gun control debate because so much of what we want to accomplish in China and other parts of the world is dependent upon the spread of this kind of information. I think we have to look at technology first as our friend, technology as the source of all this new opportunity for people to have discourse, to cross borders with information, to share and so on, and then recognize that like all new advances in technology, it creates problems for people who would do the wrong thing—creates opportunities for them, problems for us.

And I think we need to seek the cooperation of those who are involved in global trade, so that they can help us keep an eye on how their products are being used. And when you've been burned many, many times, when it's no longer just a question of, gee, what might happen, but you know exactly what's going to happen, then perhaps we can learn from that experience.

But what we have in mind with H.R. 48 is taking the world as we find it, as we know it, that you know people are going to be out there trying to use perhaps some of our own technology to create an intranet, to create a new enforcement tool for the police state, to deny people access. And with that as a given, can't we take all of this technology, in which in many cases we are the world leaders, and use it aggressively to preempt that effort?

It is possible, as we know, because I spent a good deal of yesterday up in the Senate Intelligence Committee quarters with our Subcommittee on Cyber Security for homeland security, unfortunately it is possible to drill into almost any kind of system, and

this is a cat-and-mouse game that's going to go on for the rest of our life.

So why not take the forces of good and marshal them, and just as we have for so long with traditional broadcasting sought to get the truth in, whether it was on little radios or later on television. Let's see if we can't stop Internet jamming and let people talk to each other. That's the point.

Chairman ROBINSON. Representative, if you have a moment, Commissioner Bryen has a quick follow-up to that question, and Vice Chairman D'Amato also had a quick question.

Commissioner DREYER. What I was trying to focus on was the number of U.S. companies who are actually giving software assistance to China to build its "Great Firewall," and it seemed to me that that's not well-advised and that we ought to consider legislation that would, under the Export Administration Act, for example, make that illegal, or at least require a license so that we could see what's going on.

I share your view on the question of hardware. I think you're exactly right. But when it comes to software, teaching people to manipulate it, sharing that knowledge, it's a double-edged sword. We not only help them do it, but we also give them a window on our systems and a way to break into our systems.

This is something I am encouraging the Commission to explore, and hopefully it will be explored in Congress as well.

Representative COX. I think that it's an excellent point. A corollary of what you just stated is that it is impossible to write a law that's going to apply itself to the facts in each of these cases, and so what you're talking about in all cases is a system of executive branch discretion. And as legislators we have to be concerned with how much discretion we want to grant the executive branch because, although we have light years to travel in order to end up at that destination, we don't want to be where China is.

Chairman ROBINSON. Vice Chairman D'Amato?

Vice Chairman D'AMATO. One, I want to congratulate you on your efforts in this area. This is one of the key areas, one of the nine areas that we are tasked to look into this year, media control, Chinese control of the media, and also control over their perceptions of the United States which they have been able to manipulate very effectively.

And I want to congratulate you. As I understand what you were saying, you have got this, you have moved the ball down the road already in terms of getting this passed, in terms of the State Department authorization bill.

And from what we gather from our preliminary discussions with our witnesses today, there are a number of technologies, very promising, and have some performance track record in terms of ability to break through this firewall. To take the next step, the quantum leap step next, they need more resources, of course.

And the next question, of course, is how our friends in the Appropriations Committees will take a look at the possibility of adding resources this year to allow additional work and additional access into China. I just wondered if you had a sense of the receptivity on your side, in the House, as to being able to provide more re-

sources to the agencies, to give to the technology operators to expand their activities in this area.

Representative COX. Well, particularly as the Chairman of an authorizing committee who has several appropriators on his committee, including Bill Young, the Chairman of the full Appropriations Committee, I want to respect the boundaries of the appropriators on the one hand and the authorizers on the other hand. We put money into H.R. 48. It is authorized. It is then up to the appropriators to do the right thing.

Vice Chairman D'AMATO. Thank you very much. Thanks for coming.

Chairman ROBINSON. Well, thank you very much. I know time is tight, and you have been awfully kind to stay for some questions.

Representative COX. Well, the kindness has been coming at me because you have interrupted your proceedings, and this is a very, very distinguished group here and your time is very valuable, so I appreciate participating.

Chairman ROBINSON. Well, thank you once again.

Representative COX. Thank you.

[The statement follows:]

#### PREPARED TESTIMONY OF REPRESENTATIVE CHRIS COX

I commend the Commission for your outstanding work on this issue and for holding this important hearing on the impact of SARS on media control in China. We have all learned the tragic consequences, measured in hundreds of innocent lives lost, resulting from Beijing's systematic denial of the truth about SARS. And while some might have hoped that this deadly lesson would lead to greater openness on the part of the regime—and perhaps some restraint in its ongoing campaign to block the free exchange of information via the Internet and other media—recent events have not been encouraging. Last week, four Chinese journalists were sentenced to prison terms ranging from eight to ten years for posting on the Internet statements critical of the communist regime. This week, one of these journalists, Xu Wei, has begun a hunger strike to protest the abuse he and his colleagues have suffered since their arrest and detention in March of 2001. This abuse, according to the group Human Rights in China, has included beatings and electric shock.

In fact, the communist regime is not simply continuing to apply its broad, unchecked authority to punish those who dare to speak truth to power. It is even expanding this authority. This morning, I've just come here from a meeting of the House Policy Committee, which I chair, and which received testimony from Martin Lee, founding Chairman of the Democratic Party of Hong Kong. Mr. Lee briefed our committee on the new "national security" law that will take effect in Hong Kong on July 9th, and will extend the worst of China's abuses of speech and press rights from the mainland into Hong Kong, including a prohibition on unauthorized disclosure of "protected information."

The Chinese government, and sadly, too many other regimes around the world, have been aggressively blocking access to the Internet, monitoring Internet activity, and punishing those who seek only to share information. Last month, according to Human Rights Watch, web publisher Huang Qi, after enduring a three-year detention, was sentenced to five years in prison for the crime of subversion. What was he publishing? The online equivalent of our milk carton notices of missing persons. His site allowed people to share information about missing friends and family members and actually helped rescue several young girls who had been abducted and sold into marriage. But because his site also featured criticism of several state-run agencies, he now spends his days in prison. Because of cases like this one and numerous others around the world, last year I authored the Global Internet Freedom Act to create a new Office of Global Internet Freedom within the International Broadcasting Bureau. The Office would develop and implement a global strategy to combat state-sponsored and state-directed Internet jamming and persecution of those who use the Internet. In the current Congress, my bill is known as HR 48 and it has been included in the House version of the State Department reauthorization bill.

Of course, when I was drafting this bill last summer and into early fall, no one had heard of SARS, but I believe this tragic incident has provided a case study on the need for this legislation, demonstrating as it does both the promise of the Internet in allowing the spread of vital information and the horrible human toll when the truth is suppressed. As we now know, while Chinese official media denied the existence of SARS for so long, the Internet provided the first trickle of information out of China as Western web crawlers picked up chatter on this deadly new disease among average Chinese. So too, the news became more difficult for the regime to ignore as increasing western coverage of the death toll, coming back into China via the web, made it increasingly difficult to sustain the lies. But the long period between first discovery of SARS late last year and official acknowledgement by the regime on April 18th of this year - and the numerous deaths that occurred as a result - could not have happened without the regime's aggressive and often successful blocking of independent reporting via the Internet and other media.

And of all these available media, the Internet with its growing population of users represents the greatest opportunity for free expression and communication. Mr. Berman on your panel today has noted the success that outlaw regimes now enjoy in jamming traditional broadcasting. My bill is an opportunity to capitalize on America's technology leadership by bringing to so many millions of enslaved people around the globe the tools to outwit the thought police.

I commend the Commission and you, Chairman Robinson, for your outstanding work on the issue of censorship in China and for gathering this esteemed panel, which includes some of the leaders in bringing technology to bear on this problem. There are a number of technologies which many of us have read about in the press and in fact that some of your guests today have developed to get around China's great firewall, and there are new ones which at the request of the technology developers I am not going to mention today, because the regime may not yet be aware of them. So I'm afraid my testimony today may be a terrible disappointment to any apparatchiks in Beijing who will be pulling it down from the Net. But I nonetheless appreciate your time this morning.

Chairman ROBINSON. We look forward to working with you, and hearing your views and taking direction on this terribly important issue.

### **Panel I: Discussion, Questions and Answers**

With that, I would like to return to the questions of Commissioners. This list that I have before me right now are Commissioners Ellsworth, Wortzel, Wessel, and Mulloy, followed by Commissioners Dreyer and Reinsch. And I'll just be stepping out for a moment, but Vice Chairman D'Amato is going to administer the question and answer period from this point.

Commissioner Ellsworth?

Commissioner ELLSWORTH. Thank you, Mr. Chairman.

Well, the testimony of all three witnesses was very interesting; and I want to thank you all for the way you have presented to me a lot of new information, and for your wisdom and insight. Let me ask two or three quick questions.

Mr. Henderson referred to this SARS problem as being a problem around the world. Earlier this morning we heard similar phrases: a global health problem and a global health crisis. Is it really global? I mean, does the United States have a SARS problem? And of course in Canada, Toronto does and Vancouver doesn't. And maybe South Korea has or has not. So, is it really global in your eyes, Mr. Henderson?

Mr. HENDERSON. In my limited knowledge of what's happening around the world outside of China, I have heard of SARS cases and SARS deaths in other continents. Europe, for example, we have had problems there. We have had SARS deaths in Russia. We have had SARS cases in the United States. A CDC employee who was

in Taiwan had to be flown back to the United States; he got SARS out there.

If nothing else, though, it has certainly raised the alarm. It has caused the WHO to cite Toronto as a place where people should not go, and that is outside of Asia. There are a lot of other areas of the world, I think, that were alarmed that SARS might reach into them. I don't think it's a global crisis like HIV/AIDS, which is much more widespread, but the potential for this was certainly there.

Commissioner ELLSWORTH. Yes, I agree with that, and, as you know, the WHO for the very first time in history issued a world-wide alert.

Mr. HENDERSON. Yes.

Commissioner ELLSWORTH. I appreciate that, but I just wondered if you had some insight or knowledge. So what you've said is what you know, and I appreciate that.

Mr. HENDERSON. Yes, sir.

Commissioner ELLSWORTH. Mr. Southerland told us about RFA call-in shows, which was very interesting to me. I had never heard of such a thing before, but evidently it's a very lively and very widespread phenomenon. Is that correct? Was that your testimony, Mr. Southerland?

Mr. SOUTHERLAND. Yes. I mentioned that we get many more thousands of phone calls than we can handle, and—

Commissioner ELLSWORTH. Thousands more than you can handle?

Mr. SOUTHERLAND. Right.

Commissioner ELLSWORTH. You said 30,000 per what? More than you can handle.

Mr. SOUTHERLAND. I believe it's 30,000 per month.

Commissioner ELLSWORTH. Per month? More than you can handle. Amazing.

Mr. SOUTHERLAND. Let me just mention, if you're really interested, I'll put a plug in for the types of call-ins we do, very briefly, if that's okay.

Commissioner ELLSWORTH. Pardon me?

Mr. SOUTHERLAND. I can describe just the types of call-ins we do, because there are different types.

Commissioner ELLSWORTH. I would like that.

Mr. SOUTHERLAND. Would that be good? Okay.

Commissioner DREYER. I would be interested.

Commissioner ELLSWORTH. If you don't mind.

Mr. SOUTHERLAND. I mean, this usually interests people. One is our listener hot line, which is probably the most popular thing, where people just call in and get 5 minutes to say what they want to say. Lately a lot of it has been about SARS, but before that it was a lot about the Iraq war.

And what I found very interesting about that is, despite some things you read, that the Chinese public was totally opposed to the war, and certainly the coverage by the Chinese media was biased in my view, we got callers who said, "No, we're beginning to understand, we're beginning to hear the American side of it," and they would tell us about that.

We also have something called Voices of the People, which is geared toward workers and farmers, which has a lot of heart-breaking stories that come in because of the decline in rural health and so forth. That is a lengthier format, 30 minutes daily. The listener hot line is—lengthier interviews, I'm sorry, or talks—the hot line is about 60 minutes.

Then we have Democracy Salon, which has a panel of legal experts, Chinese—

Commissioner ELLSWORTH. Democracy what?

Mr. SOUTHERLAND. Democracy Salon.

Commissioner ELLSWORTH. Salon?

Mr. SOUTHERLAND. Right. I mean, it sounds better in Chinese, I think. In which some legal experts, Chinese legal experts, answer questions about rule of law, what are your rights. A lot of people don't really know what's in the Chinese constitution, and they are told that.

Then we have another one called Different Voice, and another one called Heart to Heart, which is for women and families and teenagers. And we have Journey of the Soul, which is—anyway, I can go on and on, but—

Commissioner ELLSWORTH. Journey of the what?

Mr. SOUTHERLAND. Journey of the Soul. That's not so much a call-in as another type of program. I was getting carried away there. But I get real enthusiastic when I talk about this, because—

Commissioner ELLSWORTH. The big question that a lot of people in this country have, including myself, is, is China really going somewhere? And if so, where is China going? And I do understand that there's a lot of discussion about that inside China, but I guess maybe you're not picking up very much of that on those call-in shows, at least the ones that you've described, except possibly Democracy Salon.

Mr. SOUTHERLAND. We are—

Commissioner ELLSWORTH. Would you be able, if you focused on it for say 30 days or 60 days, to compose an essay on how your talk shows, the ones that you know about and are in charge of, that may reflect popular thinking across China on where China is going? Do you think you could do that?

Mr. SOUTHERLAND. We could do it. I think some people would say that this is not representative of any—

Commissioner ELLSWORTH. I know that.

Mr. SOUTHERLAND. You know that.

Commissioner ELLSWORTH. I understand that.

Mr. SOUTHERLAND. Audience research wouldn't.

Commissioner ELLSWORTH. I know Larry King isn't representative either, but a lot of people pay attention to him.

Mr. SOUTHERLAND. No, I actually think it's a great idea.

Commissioner ELLSWORTH. Well, see if you could do that for us, would you?

Mr. SOUTHERLAND. We're so busy sort of getting the news out and talking to people—we have a very hard-working people, as I mentioned earlier—that we hardly ever catch our breath, but I think it would be great to maybe get.—

Commissioner ELLSWORTH. Thank you.

Mr. HENDERSON. Commissioner, if I could just add a word to that, Voice of America, like RFA, has a call-in show. We have a daily call-in show. It's televised. It's an hour long. We have transcripts of those which we summarize in English, and I would be glad to send you, say, a month's worth of the political shows. Every day we have a different type of show, along the lines a little bit of what RFA has had.

And also I would suggest, if you would like really some more information on our call-in shows, you can consult with two of our guests, our frequent guests, who are sitting to your left, Professor Dreyer and Commissioner Wortzel.

Commissioner ELLSWORTH. Yes, but they're not Chinese. I'm interested in what the Chinese are saying among themselves about where is China going.

Vice Chairman D'AMATO. We'll have that for you.

Commissioner ELLSWORTH. And Dick, two months of paper work—

Vice Chairman D'AMATO. No, we can follow up. We'll follow up with a letter and see what we can do.

Commissioner ELLSWORTH. And I would also like to have their analysis of their thinking on how that question may be being addressed popularly in China.

Can I move on?

Vice Chairman D'AMATO. Well, the time on this round is up, but do you have another question you wanted to ask?

Commissioner ELLSWORTH. Just a quick technical question to Mr. Berman. I heard on the radio this morning that 3G or G3, there was a big development.

Mr. BERMAN. Third generation telephones.

Commissioner ELLSWORTH. Yes, moving into China in a big way. There was something on the radio. Is that going to substantially improve or have no effect on what you were talking about?

Mr. BERMAN. Well, this conference I attended recently with a telecommunications consultant who is based in Beijing and has made all the forecasts, he feels that third generation will not impact necessarily what we are doing. We are really a 2.5 generation right now, with text messages. What third generation is, is multimedia.

And, if you believe that people are going to want to access web pages and do computer terminal stuff from their phones, it might, but our assessment and the consultant's are in fact that there is not going to be a big market for that. People want to get quick news and information, and then go elsewhere to get more detail.

Commissioner ELLSWORTH. Thank you.

Vice Chairman D'AMATO. Thank you, Commissioner.

Commissioner Wortzel?

Commissioner WORTZEL. Thank you very much, and I want to thank all the witnesses, not only for their testimony which has really been enlightening but for your work, because I think it's excellent. I do know it. I appreciate it very much. Whenever we have to talk to anyone on the Hill or our own Heritage donors about the work of the Radio Free Asia and Voice of America, I can say that you do a great job getting the word out, and you do a great job get-

ting the word out to an awful lot of extremely repressed countries, and the technical support that you get allows you to do that.

I was intrigued, Mr. Henderson, by your comments on reciprocity on government-sponsored journalists, because having been at the hands of the Ministry of State Security's restrictions on my activities in China for about 5 years, I would really like to get even.

The Secretary of State, if I understand it, is on the Broadcasting Board of Governors.

Mr. HENDERSON. Yes, sir.

Commissioner WORTZEL. And the Office of Foreign Missions of the Department of State, which is an office under the control of the Assistant Secretary of State for Diplomatic Security, is charged with ensuring reciprocity in diplomatic relations and representation in foreign embassies and across.

So I'm going to leave in a couple minutes to have lunch with the Assistant Secretary who runs the Office of Foreign Missions. I can assure you I will raise that. But I would suggest if you have not raised this with the Broadcasting Board of Governors and the Secretary of State, you should, because you can really get even.

I mean, I think that's very serious. I think we should insist on reciprocity, and it works.

Mr. HENDERSON. Before you leave for lunch, could I give you one other juicy example of reciprocity?

The Chinese are very anxious to get their television programs into the United States, and their radio programs. For a brief time, in fact, they were actually on National Public Radio, before they got some fire for that and they took that off. But they are succeeding in getting lots of cable television stations, and they of course have full accreditation. That is to say, everyone knows who they are.

Voice of America has relations with 60 or so radio stations in China and we send them our feature, not our news materials but our feature, "Life in America," "U.S. Policy," those kinds of things. We send them to them regularly. We also have relations with six television stations, large ones, like in Sichuan, with 100 million people population. We're on there right now, every day, but every single mention of Voice of America, every little bit of scrap of evidence that identifies us, is taken off. No reciprocity there.

Commissioner WORTZEL. Well, that's another thing we can talk about.

Mr. Berman, I've got, I mean it's kind of a technical question. If a Chinese user is directed by some Ministry of State Security or Public Security Bureau control router to a site that the PRC prefers that user look at rather than a restricted site—

Mr. BERMAN. Yes.

Commissioner WORTZEL. Can the Ministry of State Security or some security agency also then technically track that user and go after him for even having tried to access a prohibited site?

Mr. BERMAN. Yes, that is possible. They're known as honey pots. A site might be put up, users are attracted to it, that might have controversial information on it. Then the Ministry of State Security, the Ministry of Information Infrastructure—there's about 10 different bureaus that are responsible for this, and sometimes they

do battle with each other—can in fact go and look to see who connected to that site.

What they will learn is their IP address. That IP address might be in an Internet cafe, so then they'd have to correlate with the cameras that are on the wall in some Internet cafes. It might be someone's home. It depends on whether the true individual could be caught on what the specific address is. But yes, there is vulnerability there.

Commissioner WORTZEL. And who makes the best software to allow that tracking back?

Mr. BERMAN. U.S. companies that work on firewalls and penetration testing. We use those same kind of tools here, if there was a break-in. Forensics and penetration testing is conducted regularly, and that's how corporations sometimes, if people are trying to do an attack, can figure out or try to figure out who does it.

Now, most people who do attacks go through a series of servers to mask their identity. The poor person in China would not have those kind of tools to mask their identity.

Commissioner WORTZEL. Thanks very much.

Vice Chairman D'AMATO. Thank you. Commissioner Wessel? And I want to try and make our questions as brief as we can. We have about 15 minutes before we have to meet with Martin Lee for lunch. But go ahead.

Commissioner WESSEL. I'll try to be brief, even though I have more than two questions, and would hope that we could find more time to meet with these witnesses, and potentially Mr. Berman, meet behind closed doors to understand some of what the U.S. companies are doing, not to besmirch them publicly but to understand what the risks are.

I wanted to follow up on the questions also in terms of tracing. In terms of the call-in shows, are those traced by the Chinese Government?

Mr. SOUTHERLAND. We have had the word from some listeners that they have been called upon by the police when they repeatedly call us, and there's one very gutsy old man in his mid-80s who says, "I was already in prison once. What are they going to do to me now?" He just keeps calling.

It's not very widespread that I can see. Jay might have more on that. I know that one guy was arrested in Hunan Province once because he—Jay can add to this—but he rang us up to tell us about a workers' demonstration, or maybe it was a farmers' demonstration. We didn't use the story because we couldn't double-check it or confirm it. I mean, it's one of those tips you've got to get a second source. We like to have more than one source. So we didn't use it, but he was later arrested and charged with giving state secrets out to, I think it was VOA.

Mr. HENDERSON. Yes.

MR. SOUTHERLAND. But I know we talked to him, and I guess maybe you talked to him. And this poor guy was arrested for something we never used, but they obviously were listening.

Mr. HENDERSON. And he never talked with us, he talked with RFA, but they accused him of having talked with us.

Mr. SOUTHERLAND. That's right. They got their indictment a little screwed up. I knew there was a mix-up there. And he went to

jail for I don't know how many years. I worried about it for weeks, I had a file on this guy, because I couldn't do anything. I felt helpless.

But it's a danger. There's a certain amount of intimidation sometimes, if they know somebody is calling, but they seem to be trying to use mostly intimidation. And by the way, they're very good at intimidation and bullying. And I could go on and on, but I won't.

Commissioner WESSEL. As it relates to the work on Internet blocking, etcetera, are you having discussions with other countries that may have similar interests in terms of spreading information in China? Do we have any correlating activities?

Mr. BERMAN. I have not discussed our program with any other country's international broadcasters. We had very superficial discussions with the BBC, but they're off on their own. We haven't had any technical exchange of information with them.

Commissioner WESSEL. But they're facing similar problems in China, as well?

Mr. BERMAN. Yes, they are. The BBC Chinese language page is blocked. Their English language page is not.

Mr. HENDERSON. And they don't have any e-mail. Voice of America and RFA are the only ones that are sending daily news bulletins by e-mail to millions of people in China. It's uniquely our problem.

Commissioner WESSEL. Thank you.

Vice Chairman D'AMATO. Thank you. Commissioner Mulloy?

Commissioner MULLOY. When we met with some of the staff who were involved with the Internet Freedom Act, and the question that came up—and I'm not, believe me, I'm not an expert on any of this technology, but I want to make sure—can you unblock things like Time, Newsweek, the New York Times, without unblocking the other country's ability to block pornography, for example? In other words, can you do legitimate things and not undo their ability to block things that you wouldn't want on our own Internet.

Mr. BERMAN. Yes, by all means. You can be very selective. You can block Time magazine and you can block porn sites or you can block either one individually.

The problem with porn is that there's thousands of porn sites, and even the best filter has trouble blocking all of them because they have to know what they are ahead of time, which gives the researchers a lot of active work to do. Time has only one site, so it's much easier for the Chinese Government, frankly, to block individual news sources.

In fact, they have not been that aggressive in blocking porn sites. Our reports are that, compared to Iran and other countries that try to block that for various moral reasons, the Chinese seem to let half of it go through.

So it can all be blocked. It just takes more work because, as I said, there's only one Time, one Washington Post, one New York Times, one VOA.

Commissioner MULLOY. So when we're trying to get our information into their Internet system and take away their blocking ability we can focus on very legitimate materials and not interfere with their ability to filter out pornography?

Mr. BERMAN. Absolutely, yes.

Commissioner MULLOY. Thank you.

Vice Chairman D'AMATO. Thank you, Commissioner Mulloy. Commissioner Dreyer, go ahead.

Commissioner DREYER. I have a very quick question for Jay Henderson, and then another question for all of you.

You mentioned the Chinese getting cable broadcasts in the United States.

Mr. HENDERSON. Yes.

Commissioner DREYER. Are these in Chinese or English? I know there's a pretty boring program, "Sports in China," in Chinese language on cable TV, which even makes it to Miami, but that is the only one I've noticed.

And a question for all of you: There is this question in my mind about selectivity. Obviously you get some calls from some very brave octogenarians and some younger people who don't mind going to jail.

But I'm wondering, if the Chinese Government has attempted to use the Internet for patriotic purposes as well, setting up web sites in order to fire up enthusiasm for, themes such as, "The Japanese have been screwing us for years," the "Century of Shame," and the, "Taiwan has apparently been part of the ancestral land since the day the earth was formed," sort of thing.

Do you get any sign on your call-ins or anything like that, of people who have been imbued with the effects of these sites, who want to talk to you about the Chinese patriotic side of things?

Mr. HENDERSON. On your first question, the Chinese, simply because they have so much more programming in Chinese, that is their main thrust. But just within the last year, if not in the last six months, they have been making a major thrust to get their English language programming onto the airwaves in the United States, and I think with some success.

And they are just starting, they're putting a lot of energy into it. The man that Dan Southerland mentioned half an hour ago, Li Changchun, the new commissioner of propaganda for the State Council, everyone thought that he would come in and take over and be a sea change of difference from Ding Guangen, his predecessor. We're a little bit disappointed in his approaches. It doesn't seem to be much of a change, at least so far.

And this is a major thrust for him. They have an actual money-making corporation that is part of the propaganda operation under the State Council, that is trying to place programming and attract advertising.

Now, your second question?

Commissioner DREYER. About nationalism.

Mr. HENDERSON. Yes.

Commissioner DREYER. Do you see a growth in this? Are more people calling in espousing nationalistic themes?

Mr. HENDERSON. We have a program, a call-in show that we co-produce with a Taiwan broadcaster, and it's called "Strait Talk"—S-T-R-A-I-T—referring to the Taiwan Strait, on which Commissioner Wortzel has been a guest, I should mention, where we invite people from Taiwan to talk to people on the mainland and people

on the mainland to talk to people on Taiwan about common problems that they share.

And we've been very surprised at how—in the interest of time, I'll just be very brief—how pro-mainland the Taiwan people's calls have been, and how pro-Taiwan the calls from the mainland have been. You would have thought it would have been the other way around.

Commissioner DREYER. Again, that may be some kind of activity. The other people don't call, right?

Mr. HENDERSON. Yes, but we have lots of—as Dan says, we get lots of callers that don't get through. We can only handle about 15 calls in an hour, and probably another 10,000 are out there trying to call us.

Mr. SOUTHERLAND. May I just add, have I got time to add something?

We do get sort of attacked on the air quite a bit, and we put these attacks out. One person called in and said our host was a traitor to China, and she said, "Well, could you be a little more specific?" And they hung up on us.

We had—one of the most interesting cases of this, and I hope I'm addressing your question, was during the Hainan Island collision between the U.S. reconnaissance plane and the fighter jet, where they were being buzzed by this guy relentlessly. China put out the story that this lumbering recon plane had knocked the fighter out of the air. You know the whole story. They didn't give the American side in their media.

So we got deluged with calls, very patriotic stuff, quite often from young people, and eventually, I think within a matter of days, people started saying, "You know, we're not sure we're getting the whole story. Is there another side to the story?" And we began to—I wrote a little op ed piece about this, in which—I'll just read from it.

"We were flooded with calls from Chinese listeners asking for details and offering thanks for the full story. Many knew they weren't getting the whole story, and they were impressed that congressionally funded RFA would broadcast their criticism of the United States."

So we've had kind of a debate with people like this, and it happens all the time. People call and they denounce our host and so forth. We've got a guy who is so cool, who just says, "Give me some specific criticism. Don't just give these blanket criticisms." And I think we help to get people thinking. You know, they begin to think for themselves.

One guy—I mentioned Inner Mongolia. We've had a number of calls from Inner Mongolia because the SARS situation was kind of bad there.

Commissioner DREYER. SARS.

Mr. SOUTHERLAND. One guy called in recently and said, "You know, after talking with you guys, I have to admit, I used to be anti-American. I admit it. I'm kind of turning the other way."

And I think just the fact that we have this interaction with people impresses the hell out of them, because they cannot do that in China. There are call-in shows in China, but they're very safe for

the most part, and I don't think the impact of the SARS crisis is going to make it a great deal more open.

So is that kind of getting at your question?

Commissioner DREYER. Yes. Thank you.

Mr. SOUTHERLAND. I mean, I could go to the Iraq war. I mean, I've studied that at length, but I won't because we don't have time.

Mr. BERMAN. A very quick comment on that. Sorry. One of the technologies we're looking at is a two-language, Chinese-English, chat room, to allow citizens in China and non-Chinese citizens to be able to chat in real time and have the languages translated, so we can get some kind of dialogue going, opening up. Because there are these nationalist issues that pop up, especially via Internet traffic, whenever there's kind of Hainan Island or embassy bombing in Yugoslavia.

Commissioner DREYER. Thank you.

Vice Chairman D'AMATO. Thank you. Commissioner Reinsch?

Commissioner REINSCH. Thank you. I'll just take a minute. Having missed a couple of the questions, I apologize if this is redundant.

I want to pursue for a moment with Mr. Henderson the reciprocity question of journalists or reporters. Can you repeat exactly what you were recommending?

Mr. HENDERSON. I was recommending that some form of reciprocity be brought to bear. Now, either that would mean that our number of visas would be brought up to their level or their—I mean, the definition of reciprocity would be either that or their number would be brought down to our level.

Commissioner REINSCH. So you envision something a little bit like the diplomatic game, where if they expel somebody, we expel somebody, and we try to keep—

Mr. HENDERSON. I would not like to recommend at all any expelling. These are journalists that we're talking about, and the United States stands for freedom of the press. I would much rather see them loosen up on us and give us more visas for our people to go. I mean, it's unconscionable we only have two and they have so many.

Commissioner REINSCH. Sure. I think that's a goal we all share, but if they don't do that, what do we do?

Mr. HENDERSON. Then another type of reciprocity would be, as they apply for new visas—that is to say, they can keep their 40, we're not going to necessarily expel them—but as they apply for new visas, we say, "Well, what about the two or three that we've applied for?" and have that be. So as soon as they approve our two or three, then we'll approve their six or five or 10 or 12.

Commissioner REINSCH. Well, it's tempting to say as an aside that thanks to the new visa procedures that have been put in in the wake of 9/11, none of them are getting in anyway, so I'm not sure that it makes any difference. But that's not because of your policy concerns but for other reasons.

I guess my question is, while I think the objective is a noble one, maybe you can elaborate a little bit on why it would help greater mutual understanding to have fewer Chinese journalists in this country?

Mr. HENDERSON. Perhaps the reciprocity that I certainly would recommend would be not fewer Chinese, but more Americans in China.

Commissioner REINSCH. Well, this sounds like one of those proposals that is best threatened but not implemented.

Mr. HENDERSON. The Chinese have to apply. The government-sponsored Chinese have to apply to the office that was mentioned earlier, in the State Department, for a visa to come here. And that office has the power of saying, "We want to approve these visas, but what is happening on the two that the Voice of America has put in for? We would appreciate some action on that, and that would certainly help us to push your applications, China, through faster."

Commissioner REINSCH. Have you tried that? I mean, we're really talking about the left hand and the right hand in the State Department, are we not?

Mr. HENDERSON. I think we're trying it right now, sir.

Commissioner REINSCH. We are?

Mr. HENDERSON. Yes, sir.

Commissioner REINSCH. And with what result?

Mr. HENDERSON. Well, we're trying it right now. No results quite yet.

Commissioner REINSCH. Maybe we can have you back on another occasion, or you can let us know if you achieve victory.

Mr. HENDERSON. I personally will let you know if we have success on that.

Commissioner REINSCH. Good. Thank you.

Vice Chairman D'AMATO. I think the Commission would be very interested in, as that goes along, what the results are.

Commissioner Becker? And I would also point out to the Commissioners, this will be the last question. Mr. Lee is down at the lunch room waiting for us.

Commissioner BECKER. I want to join with the other Commissioners in thanking you for a very, very thoughtful and in some respects exciting presentation. I was particularly intrigued by Mr. Southerland's report on Radio Free Asia. I'm very keen on learning about the talk shows, which offer a forum for debate and legal advice.

Which brings me to the question about the free trade union movement or freedom of association. It's been said by a lot of people over the years that freedom of association, and perhaps even the free trade union movement, are the essential cornerstones in building a democracy in a totalitarian government, much the same as what happened in Poland and the Eastern Bloc countries and eventually the Soviet Union itself.

What I gather from reading the media concerning the labor movement is the sentencing of people, specifically, workers who have had leadership thrust upon them. I don't even think in many cases they are labor leaders. Rather, the workers push somebody out in front to speak for them, and they wind up with long prison terms and repression, which in turn stifles the efforts to build a labor movement.

My question is, is any of this ever discussed, the free trade union movement or the building of democracy? Do you talk about this on your shows? Do you have labor leaders from other countries speak?

Mr. HENDERSON. Do you want to go first, Dan?

Mr. SOUTHERLAND. What we do is, as I mentioned earlier, we have Han Dongfang, who was the main labor leader at Tiananmen Square in 1989, who is working on contract with us out of Hong Kong, who spends his whole day talking with workers, and that's one of the main subjects, where he tells them what their rights are.

He also interviews people who are in this government-controlled trade union organization in China, and they admit they're impotent quite often. On the air sometimes they'll say, "Look, you know I can't do anything." They're controlled by the party apparatus in the factories and so forth.

So we talk about this all the time. What are their rights? Allegedly there is a right to organize in China. I mean, there's a lot of good stuff in the Chinese constitution. It just doesn't ever get implemented.

So it's a big issue, and that's one of the ones he grapples with all the time. There are situations with the labor situation in China which are even—I mean, you can't even get to first base in terms of just basic working conditions. So there are all kinds of issues.

Coal mine disasters are occurring all the time now, and not getting reported, by the way, in any detail. They are reported briefly by the Xinhua News Agency, but they usually decide where to cap the casualty toll, and that's the official toll. You know, that's it, only 50 people died, and we find out 100 died.

I mean, there's just lack of basic information, and there's an attempt by the regime to fragment the labor union, so there's never coordination, never communication. So you've got all these outbreaks of worker protests all over China which we report extensively, thanks partly to Han Dongfang, going on and on and on. You're not going to read about it except every now and then, but it's happening every day, just about.

Commissioner BECKER. Is this working? Is there more activity, acceptance, and discussion?

Mr. SOUTHERLAND. I would say it's working in terms of people being more thoughtful about it. As I mentioned earlier, we actually talk with workers. When there's a coal mine disaster, we're usually able to get to the family of the miner who's down, you know, hasn't come back yet, the local officials. We work the whole story, just like you would a regular story.

And what comes out of it is that the workers themselves are more thoughtful sometimes. They've been educated, I think partly through this international radio process. They're delighted to get on the air. One guy we talked with once who was on live, he said, "I'm listening to your radio now, and I'm watching our workers cut off the railroad line."

There are workers that we talk with who sound extremely desperate. And Han Dongfang says, "Look," he sort of advises them, "you shouldn't use violence. That's not going to get you anywhere."

Mr. HENDERSON. We have workers who call our hot lines and say, "We have a demonstration going on right now because it's been six months since we've been paid. We've been working and we

haven't been paid, and we're demanding our back pay." We then speak with that person, and then that person may disappear because they get arrested, so we continue to speak with the wife or the daughter or something like that, and air that.

In terms of the difference, a lot of things that Dan said, just let me say "Ditto," because the Voice of America gets some of the same messages but we do get them in a different way. For example, we have had 60 or so Congressmen and Senators on our call-in show within the last year alone. We've had over 500 interviews with Congressmen and Senators.

A lot of those, I would hesitate to guess how many but I would say a lot, were on labor issues, you know, workers' rights and those kinds of things. Again, I would be happy to supply you with some of the exchanges that we've had, summarized in English for you, if you would like.

Commissioner BECKER. I would perhaps be more interested in knowing whether there is something that the labor movement in the United States could do to help?

Mr. HENDERSON. One thing we could do, sir, is have you on our show as a guest, and you could talk directly to the Chinese about—

Commissioner BECKER. I accept that as an invitation. Thank you.

Mr. SOUTHERLAND. I would like to pile on and give you an invitation as well.

I think what we often do, thanks again to this great guy, Han Dongfang, we actually break stories about demonstrations that are not reported by others. And I think when the news gets out that something is happening in one place, a lot of these workers find out from international radio—not necessarily always RFA, but VOA, maybe BBC—that something is going on, but it is very difficult for them to coordinate anything because they are crushed immediately if they try to do that.

There is a combination of sort of bribing this worker and locking that one up and scaring this one. It's very, very coordinated. They've got a whole—

Vice Chairman D'AMATO. Time is almost up.

Mr. SOUTHERLAND. I'm sorry.

Commissioner BECKER. The reason I mentioned Poland is because they went through many of the same problems of repression and imprisonment, and it took a long time for the country to grow, but they persevered, with a lot from messages coming in from outside the country.

Mr. SOUTHERLAND. Well, I hesitate to try to translate the Polish experience, because you had other factors in Poland. I think maybe the Catholic Church played into it there, and so forth.

Vice Chairman D'AMATO. We're going to have to close this because we're late for lunch, but we want to thank the panelists very much. There will be some follow-up. And we will break now for lunch and be back here at 1 o'clock.

[Off the record at 12:15 p.m.]

(Afternoon Session, 1:15 p.m., Thursday, June 5, 2003)

## **Panel II: SARS' Impact on Media Control and Governance II**

Chairman ROBINSON. If everyone could take their seats, we'll get started with the second panel in today's proceedings, and I'd like

to begin with a short apology for the delay in getting underway. As some of you know, we had an opportunity to have a very stimulating luncheon meeting with Mr. Martin Lee and a delegation from Hong Kong.

And we are enthusiastic about our second panel of the day. As you know, our hearing title is "SARS in China: Implications for Media Control and the Economy." And I believe in order we're going to hear from four representatives of the private sector and academia, indeed four very distinguished members: Mr. Qiang Xiao, Director of the Berkeley China Internet Studies Program at the Graduate School of Journalism, University of California at Berkeley; Mr. Bill Xia, President of Dynamic Internet Technology, Inc.; Mr. Erping Zhang, Executive Director of the Association for Asian Research in New York City, and a consultant to the Internet industry; and Dr. Maochun Yu, who is Associate Professor at the U.S. Naval Academy in Annapolis, and we did get it right this time, and our Commission's apology to you, sir, for using the title "Assistant Professor" in our briefing materials, but we certainly have corrected that.

Mr. YU. Thank you for the promotion.

Chairman ROBINSON. And with that, I would like to turn to Mr. Qiang Xiao to begin.

**STATEMENT OF QIANG XIAO, DIRECTOR, CHINA INTERNET STUDIES PROGRAM, GRADUATE SCHOOL OF JOURNALISM, UNIVERSITY OF CALIFORNIA, BERKELEY**

Mr. Xiao: Thank you, Mr. Chairman, and distinguished members of the Commission. I would like to start my presentation by remembering yesterday's date, June 4th, 14 years after the Tiananmen massacre, 1989. While I was preparing this presentation, I could not help but to think about what China has gone through in 14 years; many, many tremendous changes, such as Internet and cell phone, which I will mention in my speech, but something has never changed and has still not changed: The government controls the people's voice and does not let the Chinese people express what things matter to them and what they really think.

Thank you very much for this opportunity to share my views and observations on this very important subject. The recent and ongoing SARS epidemic, which spread from China to much of the rest of the world, is truly a tragic public health disaster. And this crisis also illuminates many issues within China's political system, including the government's capacity to control information, especially information transmitted over the Internet.

We all know this year that China's Internet users have reached 59.1 million, becoming the second largest on-line population in the world, and the number of mobile phone users reached 221 million, the largest mobile phone user market in the world.

Only a few years ago, we have heard optimists argue, many in this building, that the rapid spread of information and communication technology, especially the Internet, will inevitably revolutionize Chinese politics and bring human rights and democracy to China. They argued that because the Internet is an inherently free technology with a decentralized, end-to-end architecture, it will make government censorship impossible.

However, recent reports and research have proven that Chinese state control mechanisms have showed increasing technical sophistication and adaptability to effectively control the Internet. Just three days ago I was in L.A. as a co-organizer of a conference, China Internet study conference. The scholars and the researchers there all highlighted this issue.

And I also have been closely monitoring some of China's most popular BBS discussions, on-line media reporting, including official sites such as "People's Daily Strong Country Forum" or popular locally based discussion spaces such as Xici.net and some commercial portals such as sina.com. I have been in touch with many China Internet research scholars and Internet users within China, have learned from their experiences, observations, analyses. So the following observations are based on those experiences.

Since the Internet first reached China, the government has used multi-layered strategy to control Internet content and to monitor on-line activities at every level of Internet service and content networks. This control is built on a mixture of legal regulations and blocking, filtering, and surveillance technology.

Despite those government controls, the Internet still provides Chinese citizens a more broad range of news and opinions than the traditional media. A number of stories that have been censored in official media have broken on the Internet in China in recent years, when people learned things about like a mining disaster; or such as during the war in Iraq, there was greater space for the debate of Chinese intellectuals about America's position in this war.

All that being said, the question is important to look into what technology is doing during a social crisis. In a situation such as spread of SARS, do new technologies play a role in breaking government censorship? How effective is the government control at a time of social crisis?

Let's go over the chronology a little bit. Roughly we can divide three periods of time during the SARS spread. From November 2002, when the first case showed Guangdong, until early February, that we can call "rumor period." During this period the public did not have access to any official information about the disease, which was just starting to spread.

The "cover-up period" started from early February, and lasted until April 20th. During this entire period, the information about SARS on web sites, bulletin boards, and chat rooms, as well as in traditional media, was strictly monitored and censored. One could hardly find any independent account or substantive public information about the disease in China.

In contrast, when the disease broke out in Hong Kong months later, individuals immediately began publishing and distributing a vast amount of SARS-related information and opinions on-line. As a result of the censorship in China, however, mainland residents remained largely in the dark about the spread of the disease, causing the virus to quietly spread to other cities and provinces, including Beijing, Shanxi, Inner Mongolia, Hong Kong, and eventually the world.

The third period of SARS reporting is the "recognition period" when began April 20th when the new leaders, Hu Jintao and Wen Jiabao, made a public pledge to be transparent about the issue, and

the central government fired the Minister of Health and the Mayor of Beijing. This sudden change in attitude was clearly triggered by the overwhelming response of international opinion, including Time magazine's article that revealed information provided by whistleblower Dr. Jiang Yanyong.

Only after that, the Chinese official media and on-line forums were encouraged to discuss and report SARS. However, it now seems unclear whether the Chinese Government is being completely candid about the current situation of SARS, and the World Health Organization has questioned the most recent statistics provided by Chinese authorities again.

Here are some of my observations. During the entire rumor period, it is short messaging service of the mobile phone, not the Internet, emerged as the major channel to exchange SARS-related information and misinformation. China has 221 million mobile phone users. Almost 30 percent of mobile phone users regularly use SMS, more than the total number of the Internet users.

Short messaging service is an easy and affordable way to connect with people through text messages transmitted between mobile phones, not only one-to-one but also through mass distribution and forwarding. In Guangdong, where SARS originally broke out, 40 percent of the population has mobile phones, so the SMS quickly became a new mass media as information and panic about the illness spread.

For example, in Guangzhou, the SMS message that read, "There is a fatal flu in Guangzhou"—this is during the rumor period—was resent 40 million times on February 8th, 41 million times the next day, and 45 million times on February 10th. This is according to the Chinese official newspaper, Southern Weekend newspaper. But Southern Weekend, after that reporting, soon being ordered, being censored by the local authority.

Also, the main problem of the short messaging service is that short messages do not allow for detailed reports, and much of the information transmitted is not verified, so there is no way for recipients to judge the quality of the information they are receiving.

SMS's limited capacity to convey information, as well as lack of any accurate and trustworthy official information source during this period, contributed to the spreading of both unofficial news as well as false information during the rumor and the cover-up periods of SARS. Therefore, SMS can help spread rumors and word-of-mouth reports, but it cannot serve as the sole alternative information source in such a situation.

Now let's look at the Internet. At the same time when SMS messages were becoming increasingly popular, SARS-related content was apparently carefully vetted before being posted on-line. During the cover-up period, the only news that was allowed to be posted on SARS stated "the epidemic is not as serious as the rumors say" or was under government control. Web site publishers told foreign reporters that they would be fined or punished if any "negative" postings about SARS appeared on their sites.

In early April, a search of Xinhuanet.com revealed not a single report about SARS was published since last November. In the meantime, when people overseas tried to post messages about SARS to various commercial Internet chat rooms, the messages

never appeared on line. It appeared that SARS had become a banned keyword on filtered sites. Official censorship and self-censorship worked together so that BBS and private web sites were not able to collect independent information about the progress of the disease.

Let's look at e-mail. During the cover-up period, e-mail actually played an important role as a catalyst to spread otherwise censored information. Still only a few technically savvy Internet users can use proxy servers to go around the "Great Firewall." However, e-mail, especially from abroad, can transmit the information from Radio Free Asia, the Voice of America, and other, BBC Chinese language service, to China.

Let me quickly sum up my conclusion. The SARS crisis in China has clearly demonstrated the critical importance of transparency and accountability in handling such a public health crisis. In a globalized world, information transparency is more and more important, but during the SARS crisis, Internet censorship in China was powerful enough to prevent the web sites and the BBS to become independent, alternative mass media.

So I want to support the effort of the Global Internet Freedom Act, because I believe that this legislation can have a profound impact, opening Chinese society and politics, and which will benefit the Chinese people and benefit the world. Thank you.

[The statement follows:]

PREPARED STATEMENT OF QIANG XIAO

Mr. Chairperson, and distinguished members of the Commission,

Thank you for the opportunity to share my views and observations on this very important subject. The recent, and on-going SARS epidemic, which has spread from China to much of the rest of the world, is a tragic public health disaster. This crisis illuminates many issues within China's political system, including the government's capacity to control information, especially information transmitted over the Internet.

During the last six months, I have closely monitored some of China's most popular BBS discussions and on-line media reporting, including official sites such as People's Daily's Strong Country Forum, popular locally-based discussion spaces such as Xici.net, and some commercial portal's on-line forums such as sina.com. I have also been in contact with many China Internet researchers and Internet users within China and have learned from their experiences, observations and analysis regarding the on-line information flow about SARS epidemic in China. Please let me start my presentation with some background information on Information and Communication Technology (ICT) development in China as well as the governmental control mechanisms over the Internet.

*1. Internet Development and Government Control Mechanisms*

This year, China's Internet users reached to 59.1 million, becoming the second largest on-line population in the world, and the number of mobile phone users reached to 221 million, the largest mobile phone users in the world. Only a few years ago, optimists argued that the rapid spread of ICT, especially the Internet, will inevitably revolutionize Chinese politics and bring human rights and democracy to China. They argue that because the Internet is an inherently free technology with a decentralized, end-to-end architecture, it will make government censorship impossible. However, recent reports and research have proven that Chinese state control mechanisms have showed increasing technical sophistication and adaptability to effectively control the Internet.

Since the Internet first reached China, the government has used an effective multi-layered strategy to control Internet content and monitor online activities at every level of Internet service and content networks. This control is built on a mixture of legal regulations and blocking, filtering and surveillance technology. Since 1995, more than 60 laws have been enacted to govern Internet activities in China. The latest regulations, enacted in August 2002, require Internet publishers to censor their own sites or risk being shut down. More than 30,000 state security employ-

ees are currently conducting surveillance of web pages, chat rooms, and private email messages. Indeed, the PRC government has made information security the main priority of Internet development and has devoted enormous financial resources to this end.

Despite these government controls, the Internet has still provided Chinese netizens with access to a much broader range of news and opinion than they get from traditional media, which remains under governmental control. A number of stories that have been censored in the official media have been broken on the Internet in China in recent years as people have learned to circumvent the government's barriers. For example, when local officials in Guangxi tried to cover up a local mining disaster, journalists and witnesses published their reports online and soon the central government was forced to conduct an investigation. Similarly, while the U.S. was at war in Iraq, Chinese intellectuals engaged in heated debates over the military action and aired views that ran counter to the official government line. In these instances, the Internet offered much more freedom to publish a wider variety of news and opinion than the official media.

What is not clear is the impact of ICT on a social crisis. In a situation such as the spread of SARS, do new technologies play a role in breaking the government censorship? How effective is the Government control at a time of social crisis?

### *2. The case of SARS*

The information flow about SARS in China can roughly be divided into three periods. From November 2002, when the first case of Severe Acute Respiratory Syndrome (SARS) appeared in Guangdong province in southern China, until early February, can be called the "rumor period." During this period, the public did not have access to any official information about the disease, which was just starting to spread. Guangdong residents who heard rumors of a fatal contagious flu through word of mouth, email and especially through mobile phone's Short Messaging Service (SMS), or text messaging, began to panic. The Guangdong-based Southern Metropolis News and other local media reported on the spread of the disease, and the public panic, in February. After the news reports appeared, including one in the influential Southern Weekend newspaper on February 8, the local propaganda departments cracked down on media coverage and issued an order that all reports about SARS must be in line with official statements, which essentially denied the seriousness and the true scale of the epidemic.

The "cover-up period" started in early February and lasted until April 20. During this entire period, information about SARS on websites, bulletin boards, and chat rooms, as well as in the traditional media, was strictly monitored and censored. One could hardly find any independent account or substantive public information about the disease in China. In contrast, when the disease broke out in Hong Kong months later, individuals immediately began publishing and distributing vast amounts of SARS-related information and opinions online. As a result of the censorship in China, however, mainland residents remained largely in the dark about the spread of the disease, causing the virus to quietly spread to other cities and provinces including Beijing, Shanxi, Inner Mongolia, Hong Kong, and eventually the world.

The third period of SARS reporting is the "recognition period," which began on April 20 when Hu Jintao and Wen Jiabao made a public pledge to be transparent about the issue and the central government fired the Minister of Health and the mayor of Beijing. This sudden change in attitude was clearly triggered by the overwhelming response of international opinion, including a Time Magazine article that revealed information provided by whistleblower doctor Jiang Yanyong. Only after that, the Chinese official media and on-line forums were encouraged to discuss and report on SARS. However, it now seems unclear whether the Chinese government is being completely candid about the current situation of SARS, and the World Health Organization has questioned the most recent statistics provided by Chinese authorities.

### *3. Observations*

During the entire "rumor period," SMS, not the Internet, emerged as the major channel to exchange SARS information and misinformation.

China has 221 million mobile phone users. Almost 30% of mobile users regularly use SMS, more than the total number of Internet users. SMS is an easy and affordable way to connect with people through text messages transmitted between mobile phones, not only one-to-one, but also through mass distribution and forwarding. In Guangdong, where SARS originally broke out, 40% of the population has mobile phones and so SMS quickly became a new mass medium as information, and panic, about the illness spread.

For example, in Guangzhou, a SMS message “There is a fatal flu in Guangzhou,” was resent 40 million times on February 8, 41 million times the next day and 45 million times on February 10, according to the Southern Weekend newspaper.

SMS therefore played a very important role during the “rumor” period by influencing public opinion, which likely influenced the government’s decision to crack down on the free distribution of SARS-related information. A week after issuing the report on SMS messaging in Guangdong, the Southern Weekend and other local newspapers was censored and told not to report independently on SARS.

However, the main problem with SMS is that the short messages do not allow for detailed reports and much of the information transmitted is not verified, so there is no way for recipients to judge the quality of information they are receiving. SMS’s limited capacity to convey information, as well as a lack of any accurate and trustworthy official information source, contributed to the spreading of both unofficial news as well as false information during the “rumor” and “cover-up” periods in the SARS epidemic. SMS, therefore, can help spread rumors and word-of-mouth reports, but cannot serve as the sole alternative information source in such a situation.

At the same time that SMS messages were becoming increasingly popular, SARS related content was apparently carefully vetted before being posted on-line. During the “cover-up” period, the only news that was allowed to be posted about SARS stated that the epidemic is not as serious as the “rumors” say and was under control. Website publishers told foreign reporters that they would be fined or punished if any “negative” postings about SARS appeared on their sites. In early April, a search of Xinhuanet.com revealed that not a single report about SARS was published since last November. In the mean time, when people overseas tried to post messages about SARS to various commercial Internet chat rooms, the messages never appeared online. It appeared that SARS had become a banned keyword on filtered sites. Official censorship, and self-censorship, worked together so that the BBS and private Web sites were not able to collect independent information about the progression of the disease.

During the “cover-up” period, email played an important role as a catalyst to spread otherwise censored information. Only very few technically savvy Internet users can use proxy servers to get around government blockades to access overseas media, such as Hong Kong and Taiwanese news sites, the Voice of America, BBC, Radio Free Asia and other overseas Chinese-language sites. Starting from March, after SARS spread to Hong Kong and was widely covered by the press there, and when the WHO and international governments and media starting to report and protest the apparent cover-up by the Chinese government, this news gradually leaked back to China, particularly through email from abroad. However, news from overseas sources is necessarily limited as it does not provide Chinese citizens with detailed local reports.

Email also gives citizens who are determined to expose the truth a technical means to reach out. A critical turning event of SARS coverage in China was when Dr. Jiang Yanyong, the former director of People’s Liberation Army Hospital No. 301, decided to send an email to Hong Kong describing the epidemic as much more severe than the government had acknowledged. On April 7, Time Asia used his report to expose the government’s cover-up.

#### 4. Conclusion and Recommendation:

During the SARS crisis, Internet censorship in China was powerful enough to prevent websites and BBS from becoming independent, alternative mass media.

By directly blocking and filtering websites, arresting targeted Internet users and publishers, and holding private Internet service providers, Internet cafe owners and Website managers responsible for on-line content, the government established solid control in cyberspace. During the entire “cover-up” period no on-line information and discussions were allowed to contradict the official line. The Chinese government still has effective control over the new medium, when it chooses to exert this control to its fullest capacity, as we saw during the SARS crisis.

However, the use of SMS to rapidly spread information in a crisis can be considered a milestone in the social impact of ICT in China. During the SARS crisis, SMS did challenge the official monopoly of information, but, as we saw, its communication capacities are limited.

Furthermore, the SARS epidemic made clear that overseas information flow is necessary in China today. During the “cover-up” period, news reports from abroad were the only objective and accurate source of information for Chinese citizens about the epidemic. Therefore, it is crucial that the outside world find ways to facilitate the efforts of Chinese netizens to combat Internet censorship so that they can both access information that affects their lives and feel safe and free to express themselves online.

The SARS crisis in China has clearly demonstrated the critical importance of transparency and accountability in handling such a public health crisis. In this globalized world, such a crisis can quickly impact the rest of the world, including the United States. Promoting freedom of expression and information is the key to helping China open up its society, which not only benefits Chinese people but the rest of the world as well. The Global Internet Freedom Act, which was introduced to the House of Representatives on January 7, 2003, can contribute critically needed resources to help private companies and NGOs to develop and deploy technological means to facilitate the free flow of information on the Internet. I support passage of the legislation as I believe it will have a profound impact on the opening of Chinese society and politics.

Chairman ROBINSON. Thank you very much.

Mr. Bill Xia, please. And I just would add here, and you were very good about this without having received instruction, but as many of you know, we try to keep our remarks to just about 10 minutes. You will see, in effect, a yellow warning light when we're at the 2-minute mark, and if you go over just a little bit, we certainly understand, but we are trying to provide adequate opportunity for the Commissioners to ask a full range of questions. Thank you for that courtesy.

Mr. Xia?

**STATEMENT OF BILL XIA, PRESIDENT, DYNAMIC INTERNET TECHNOLOGY**

Mr. XIA. Thank you, Chairman, for the invitation. It's my great honor to present here. The title of my presentation is "Media Control Dynamics in the Information Era and SARS Effect."

Well-managed propaganda through a controlled media system is an increasingly important means by which China achieves mind control, protects "social stability," and satisfies dictators' political, economic, and personal interests. New telecommunications technologies bring new opportunities and challenges to both the Chinese Government and people in China who seek basic human rights. The SARS episode demonstrated some of these recently introduced dynamics.

The first part, media control through Internet service providers, and Internet content providers, Xia has already presented many things I would like to present, so for this part I will just summarize two points.

Number one, the Internet service providers and Internet content providers failed to provide any alternative information, other than what the traditional media gave, and those Internet service providers are usually controlled by private investors and even foreign investments. ISPs and ICPs, they basically collaborate better with government compared to the traditional media. So that's for the content part.

The second point is the technology part. It's well known that China filters Internet traffic, blocking many web sites, including individual communications through Internet or SMS technologies. A lot of those blocking technologies are imported or helped by Western companies.

So, in summary, ISPs in China, including foreign ISPs who enter the Chinese markets, are determined to collaborate with the government in terms of information control. So the social and technical mechanisms to perform these controls have now become well-established.

The second is information control of individual use through social norms. Individual use of information technology remains difficult to control with technical methods, due to the quantity, variations, and dispersion of individual use, so self-censorship and indifference are the two major mechanisms used to control information flow. Technical blocking functions basically as an enhancement of self-censorship.

In China “political” is portrayed as a very negative word when it comes to personal involvement, while it is well justified for politicians. This so-called “political information” ranges from dissident essays, history studies, to the Falun Gong, to AIDS. “Anti-China,” “conspiracy with the U.S.,” “disrupting social order,” are other terms used to increase Chinese resistance to this information.

This propaganda is amazingly effective, and provide immunity to objective information even when the Chinese receive it. Moreover, most people will be more interested in local news rather than AIDS victims in a village in Henan Province.

Number three, individual use of information technology during the SARS era: Is SARS political or anti-China?

SARS has been the incentive for some people to seek uncensored information. SARS has made the Chinese Government lose face in the international community and incur strong criticism from countries all over the world. Inside China, fear of SARS has caused merchandise to go out of stock, and even caused riots. It looks “anti-China,” “conspiracy,” and “political.”

DynaWeb is a technology that Chinese can use to access any web site without being filtered or monitored. On April 20th, shortly after China acknowledged their hiding of SARS information, traffic on DynaWeb increased by 50 percent within one day.

Unlike any other so-called “political issue,” SARS is a personal matter of life or death. Also, SARS is a scientific problem. Despite China’s belated effort to battle SARS by providing limited public information, some Chinese lost trust in government-controlled media, including Internet, and are seeking technologies to access uncensored information.

Four, long-term effect of SARS on individual use of information technology. Seeking information on SARS, more Chinese are using various technologies to retrieve uncensored information. Data shows that their interest in uncensored news remains after they are exposed to independent news source.

Analysis of DynaWeb logs shows that more than 70 percent of the visits are for Chinese language news sites. Among the top 20 most visited news, most of them are commentary and news of Jiang, Hu, or other Chinese leaders. Around June 4th, many popular articles reviewing the history around June 4, 1989 entered the top 20 as well.

The lack of relevance to SARS of those popular new items implies that SARS-motivated visitors are now interested in other political news. In this area of political news, overseas web sites will be far more attractive than news provided in China. Therefore, this increased traffic should be sustained. In fact, DynaWeb traffic keeps rising, and reached record highs on June 2nd after China announced a zero increase of SARS patients.

Number five, technical efforts to facilitate information flow by the U.S. Government and private sector. Last year there was a dramatic enhancement of Internet filtering technologies, and this may be attributed to the advance of circumventing technologies last year.

Funded by IBB, DIT, Dynamic Internet Technology, Inc., has had a reasonable success in sending out VOA and RFA newsletters to a growing list of e-mails in China. March, last year, DynaWeb launched and provided uncensored access to Chinese, and stayed ahead of filtering technologies for more than one year. And late last year, Ultrareach launched its solution aimed at a fundamentally unblockable technology.

For more is possible, but not accomplished yet due to lack of resources.

Number six, efforts among overseas content providers to utilize various mechanisms. As mentioned above, indifference is one major barrier to the large-scale flow of uncensored information, so various efforts have been taken by content providers.

In terms of overall content, [www.secrechina.com](http://www.secrechina.com) is the most successful news editor. Although it does not provide first-hand news, it remains the most popular web site according to DynaWeb logs.

In response to SARS, many web sites built special columns devoted to SARS-related news. RFA set up a separate domain devoted to SARS. VOA included a table of daily statistics in its e-mail newsletter.

It is also possible to have information flow out of China. Epochtimes published many first-hand reports of SARS in China. Information technologies make this possible without the permission and cost of sending reporters to China. Some of the information was collected through phone calls and secret reporters in China. These kinds of efforts may eventually lead to competitive news to reach Chinese cities and reach the main part of the Internet news market in China.

Also it's possible to let information flow within China. Minghui.org provides preformatted flyers with customized contents for distribution in China. A full discussion of possible mechanisms information technologies can provide will be very interesting, but beyond the scope of this presentation.

So, will China give up media control? As stated repeatedly by China, "stability is the highest priority" of the Chinese Government. Most social problems will eventually lead to criticism of government officials and the political system itself, so China will never give up media control, since it will hurt the stability of the totalitarian regime.

Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF BILL XIA

Mr. Chairman. Well-managed propaganda through a controlled media system is the increasingly important means by which China achieves mind control, protects "social stability," and satisfies dictators' political, economic, and personal interests.

New telecommunication technologies bring new opportunities and challenges to both the Chinese government and people in China who seek basic human rights. The SARS episode demonstrated some of these recently introduced dynamics.

### 1. Media control through Internet Service Providers (ISPs):

ISPs collaborate well with China in terms of media control through self-censorship and technical control of their subscribers.

1) A few newspapers or magazines received warning or were closed for crossing the line. But there is no report of an Internet news provider experiencing this kind of problem. The “volunteer” petition for “self-censorship” signed by leading ISPs in China solidifies China’s capability to ensure self-censorship within the private sector.

A lawyer from a US based company stated, “we have to comply with Chinese law.” Compared to journalists running traditional media, capitalists running commercial portals follow Chinese law more closely.

Compared to traditional media, the Internet is advertised as “a more personal selection of the content,” “providing more immediacy to stimulate audience interest,” and “providing global reach.”

With its content following traditional media closely, the Internet is becoming a more efficient channel for the Chinese government to outsource mind control to private/foreign investors.

2) The most important feature of the Internet is the flexibility it provides for individuals who use it. Users can choose to use SMS, email, or chat functions, or to visit personal or foreign-based websites. Although very rare in terms of frequency, ISPs collaborate with the government to arrest online activists, which in turn imposes self-censorship on individual users.

Filtering is the most common method used by ISPs to control individual use. Many Western companies are reported to have been involved in building the filtering system. Late last year, China’s filtering capability increased dramatically. We have identified the source of this increase as world-class technologies employed at the national level, either built in or plugged into backbone routers.

Throughout the SARS episode, Internet news providers never significantly deviated from the news provided in traditional media. Shortly after April 20, when SARS suddenly become a hot topic, “feidianxing feiyan” (the Chinese name used for SARS) became a filtered phrase in both email and SMS.

In summary, ISPs in China - including foreign ISPs who enter the Chinese market - are determined to collaborate with the government in terms of information control. The social and technical mechanisms to perform these controls have now become well established.

### 2. Information control of individual use through social norms

Individual use of information technology remains difficult to control with technological methods due to the quantity, variations, and dispersion of individual use. Self-censorship and indifference are the two major mechanisms used to control information flow. Technical blocking functions basically as an enhancement of self-censorship.

In China, “political” is portrayed as a very negative word when it comes to personal involvement, while it is well justified for politicians. These “political information” ranges from dissident essays, history studies, and Falun Gong to AIDS. “Anti-China,” “conspiracy with the U.S.,” “disrupting social order” are other terms used to increase Chinese’s resistance to these information. These propagandas are amazingly effective, and provide Chinese immunity to objective information even when they receive it. Moreover, most people will be more interested in local news rather than AIDS victims in a village in Henan province.

### 3. Individual use of Information technology during the SARS era: Is SARS political or anti-China?

SARS has been the incentive for some people to seek uncensored information.

SARS has made the Chinese government lose face in the international community, and incurred strong criticisms from countries all over the world. Inside China, fear of SARS has caused merchandise to go out of stock and even caused riots. It looks “anti-China,” “conspiracy” and “political.”

DynaWeb is a technology that Chinese can use to access any websites without being filtered or monitored. On April 20, shortly after China acknowledged their hiding of SARS information, traffic on DynaWeb increased by 50% within one day.

Unlike other “political issue,” SARS is a matter of life or death. Also, SARS is a scientific problem. Despite China’s belated effort to battle SARS by providing limited public information, some Chinese lost trust in government controlled media and are seeking technologies to access uncensored information.

#### 4. Long term effect of SARS on individual use of Information technology

Seeking information of SARS, more Chinese are using various technologies to retrieve uncensored information. Data shows that their interests in uncensored news remains after they are exposed to independent news source.

Analysis of DynaWeb logs shows that more than 70% of the visits are for Chinese language news sites. Among the top 20 most visited news, most of them are commentary and news of Jiang, Hu or other Chinese leaders. Around June 4th, many popular articles reviewing the history around June 4, 1989 entered the top 20 as well.

The lack of relevance to SARS of those popular news items implies that SARS-motivated visitors are now interested in other "political news." In this area of "political news," overseas websites will be far more attractive than news provided in China. Therefore, this increased traffic should be sustained. In fact, DynaWeb traffic keeps rising and reached record highs on June 2 after China announced a zero increase of SARS patients.

5. Technical effort to facilitate information flow by US government and private sector

The dramatic enhancement of Internet filtering technologies may be attributed to the advance of circumventing technologies last year.

Funded by IBB, Dynamic Internet Technology (DIT) maintains a reasonable success in sending out daily VOA and RFA newsletters to a growing list of emails in China. Launched last March, DynaWeb has stayed ahead of China's filtering technologies for more than one year. Late last year, Ultrareach launched its solution aimed at a fundamentally unblockable technology.

Far more is technically possible, but was not accomplished due to lack of resources.

#### 6. Efforts among oversea content providers to utilize various mechanisms

As mentioned above, indifference is one major barrier to the large scale flow of uncensored information. Various efforts have been taken by content providers to provide attractive contents.

##### *Overall content*

www.secretchina.com is the most successful news editor. Although it does not provide first hand news, it remains the most popular website according to DynaWeb logs.

##### *Response to SARS*

RFA set up a separate domain devoted to SARS related information. VOA included a table of daily statistics in its email newsletter. Various websites set up special columns devoted to SARS related news.

##### *Information flowing out of China*

www.epochtimes.com published many first hand reports of SARS in China. Information technologies make this possible without the permission and cost of sending reporters to China. Some of the information was collected through phone calls and secret reporters in China. This kind of effort may eventually lead to competitive news local to Chinese cities and allow foreign based content providers to really penetrate the main part of the Internet news market in China.

##### *Information flow within China*

www.minghui.org provides preformatted flyers with customized contents for distribution in China. Devoted volunteers in China actively are distributing them.

A full discussion of possible mechanisms information technologies provide will be very interesting but beyond the scope of this presentation.

#### 7. Will China gave up media control?

As stated repeatedly by China, "stability is the highest priority" of the Chinese government. Most social problems will eventually lead to criticism of government officials and the political system itself. China will never give up media control since it will hurt the stability of the totalitarian regime.

Chairman ROBINSON. Thank you very much, and you also gave us back 26 seconds, so we are grateful.

Mr. Zhang, please.

## STATEMENT OF ERPING ZHANG, EXECUTIVE DIRECTOR, ASSOCIATION FOR ASIAN RESEARCH

Mr. ZHANG. Mr. Chairman Robinson and Chairman D'Amato and members of the Commission, ladies and gentlemen, thank you for holding this important hearing and inviting me to address the subject of censorship in China and the available technology in anti-censorship.

While preparing for this hearing, one question came to mind: If the SARS virus had not hitched a few rides beyond China's borders to places like Canada and Singapore, would we have heard about it by now? Would the Chinese public have heard about it by now?

And the truth is, the answer is most likely not. Perhaps rumors would be going around. Perhaps some foreign reporters would write a few pieces about it for overseas readers, but most likely even those who contracted the illness would not even know there was an epidemic going on.

Why? Because the Chinese Communist Party's primary mandate is to stay in power. To do so, it must regulate public sentiment and maintain a good image of itself, regardless of the reality, and that requires keeping a tight grip on information.

While I was in the Foreign Service in China, the running joke among Chinese intellectuals about the state-run newspaper, "The People's Daily," is that the only thing factual in it is the date. Even the foreign press and reporters in China must cooperate within certain parameters to ensure that they will not be detained or shut down.

And so information control may be the Chinese regime's greatest source of strength, the key to its success, but at the same time it could also very well be its most formidable weakness.

I will address two issues here. One is the manipulation of information as a source of power, and the other is private sector technology effort to break down the firewall in China.

The CCP, which is the Chinese Communist Party, has always been very systematic in its manipulation of information. Usually the image that is fed to the public often has little to do with reality, as the goal is political expedience, not balanced reporting.

Since the early days, the party has known the media can alter reality in the minds of the people. Back in the '20s, when the CCP was still in its infancy, it had already set up a propaganda division modeled after Stalin's system. In 1957, the CCP began its first public purge of outspoken intellectuals, in an effort to control the minds of the masses. Thus began the CCP's success story of muzzling the people.

The CCP also tried to destroy traditional Chinese culture and values, in an effort to better allow the foreign transplant of communist ideology to take root and grow. The anti-Confucius campaign in the '70s, for example, was aimed at removing all Confucian influence on Chinese society through burning books and denunciation of the ancient and deeply ingrained teachings.

The same tragedy repeated itself in the summer of 1999, when Jiang Zemin started the persecution of a peaceful traditional meditation practice called Falun Gong. Due to the fear of these 70 to 100 million people, and the revival of the traditional Chinese culture, Jiang ordered his propaganda machine to launch a smear

campaign to defame the founder and the practice of Falun Gong, blaming suicides and murders on Falun Gong practitioners.

For the past four years, the Chinese people have seen and read the negative propaganda. In the absence of other sources of information, how would they know that Falun Gong, like all other practices of Buddhist tradition, prohibits the taking of life and advocates nonviolence and the principles of “Truthfulness, Compassion, and Tolerance?”

But the misinformation has prompted neighbors to turn in neighbors, schools to expel their students, families to turn against their loved ones. For millions of Chinese people, this is just like reliving the dark days of the Cultural Revolution, with hundreds and thousands of Falun practitioners thrown into jail, labor camps, and mental institutions. The extent of this atrocity remains an unknown story to most people in China. Similar stories have also occurred to the underground Christians and other groups.

The latest battleground for information control is the Internet. Guo Liang, of the Chinese Academy of Social Sciences in Beijing, two years ago told the Committee to Protect Journalists, CPJ, “Mao Zedong said that to have power you need two things: the gun and the pen. The Communist Party has the gun, but the Internet is now the pen. If they lose control of it, something will happen to challenge their authority.” Incidentally, CPJ lists Jiang Zemin among the top ten enemies of the world press.

Last year, thousands of Internet cafes in Beijing and all over China were shut down for “security reasons.” All Internet services are required to install filtering software to block prohibited sites and monitor more than 50 million Chinese web users.

The arrests of this new breed of cyber dissidents are the result of a program called “Golden Shield.” Researchers say this secret program was proposed by the Ministry of Public Security and the Information Industry, and assigned sizeable financial and human resources. It involves a cyber police force of an estimated 30,000 persons, and is capable of spotting, identifying, and arresting dissident Internet users. The government has also issued more than 60 laws and sets of regulations about the use of Internet.

On the private sector efforts, the U.S. Government’s efforts to bring alternative sources of information to the Chinese public are consistently blocked, as the previous testimony said, you know, including the Voice of America and Radio Free Asia.

China guards its information monopoly jealously. An American citizen, Dr. Charles Li, is currently serving a three-year sentence in China on charges of allegedly “preparing” to break through a television signal to expose the persecution of Falun to the people of China. He has been held in a Chinese prison for more than four months, and has gone on a hunger strike since May 27th, according to a U.S. consular official in Shanghai. Dr. Li has been reportedly beaten, given forced feeding, and brainwashing classes.

The U.S. Government and Dr. Li’s fellow Americans should all pay attention to the case, because no matter how much we hope the Chinese regime is not hiding the truth about SARS or anything else, as long as Dr. Li and all other dissidents who have tried to break through the censorship remain incarcerated, it should be

painfully obvious that China's clamp on information is every bit as strong as it ever was.

While the U.S. Government attempts to get information into China are consistently blocked, Chinese Government propaganda is welcomed daily into American homes. Many of you have heard about a major U.S. media company's deal to bring cartoons and entertainment programming to Southern China in exchange for putting content from China's state-run CCTV on cable in the United States.

Last year the Los Angeles Times reported that some 300 Western businesses and other organizations signed what was called the "Public Pledge on Self-Discipline for China's Internet Industry," otherwise known as a self-censorship agreement.

In the interest of not only free speech but also U.S. national security, I would have to suggest that the U.S. Government encourage and support the existence of alternative sources of Chinese language media within the United States, such as the epochtimes and the New Tang Dynasty Television, which are here today, to provide a counterpoint. The people of China are important, and so are the Chinese Americans in our own back yard.

There are, however, private sector efforts that are attempting to break through the firewall. One IT company that I worked with as a consultant has developed an Internet anti-censorship technology that can avoid being blocked and is able to deliver web content to users inside China. This IT company targets the unique but growing need of penetrating China's Internet firewall.

Its unparalleled anti-jamming web content and access technology enables Internet users in China to reach any public web site in the world, even if they are blocked inside China. With Internet service operation that is immune to the Chinese firewall, the company offered thousands of blocked web content providers many unique ways to reach their readers in China.

Internet anti-censorship technology was thought of as a "mission impossible" two years ago, yet this IT company has done thorough R&D work on existing technology as well as from an end users perspective. While other existing technologies focus primarily on user privacy on Internet, this company has solved a connection and a re-connection problem, which is a key issue for users to access web sites without being blocked, while still addressing the privacy and safety of the user as well. Built on solid theoretical analysis and professional quality, this IT company has successfully developed a new technology platform that can deliver web content to users inside China without being blocked or monitored.

I will just jump to the conclusion, then.

Chairman ROBINSON. Please.

Mr. ZHANG. History has shown that the manipulation of information is such a crucial element in the identity and survival of the CCP, that I submit to you today that without media control and censorship, I say that it is very likely that this communist party would quickly cease to exist in its current form. I say that because once the Chinese people and the world can take a good, hard look at the skeletons in the CCP's closet and the degree to which the party serves its own interests to the detriment of the Chinese peo-

ple, the very existence of the party could very well be called into question.

The story of SARS has reminded us of the importance of freedom of information in bringing about transparency, the rule of law, human rights, and civil society in China. This also calls for our government, the leader of the greatest democracy in the world, to stand by and fund our technology efforts to tear down this firewall of China.

Thank you very much.

PREPARED STATEMENT OF ERPING ZHANG

Mr. Chairman, distinguished members of the Commission and of the U.S. Congress, ladies and gentlemen.

Thank you for holding this important hearing and inviting me to address the subject of censorship in China.

While preparing for this hearing, one question came to mind: if the SARS virus had not hitched a few rides beyond China's borders to places like Canada and Singapore, would we have heard about it by now? Would the Chinese public have heard about it by now? And the truth is, the answer is most likely not. Perhaps rumors would be going around, perhaps some foreign correspondents would write some articles about it for overseas readers, but most likely even those who contracted the illness would not even know there was an epidemic going on.

Take AIDS, for example. How many years was it before Beijing admitted to an AIDS problem and how many Mainlanders actually know the extent of the threat? It was not until last year, under pressure from foreign press and the UN that the leadership in Beijing increased its HIV estimate from 30,000 cases to over 1 million. Whether or not this revised estimate is accurate remains to be seen, just as we cannot know with any great certainty the real extent of the SARS epidemic. More importantly, how many villagers in central China have been given enough information to know the risk they take in selling their blood? Have actual steps been taken to sterilize equipment to prevent further contamination?

The Chinese regime's usual response to a health scare is to just cover it up and hope it will go away by itself. Why? Because the Chinese Communist Party (CCP)'s primary mandate is to stay in power. To do so, it must regulate public sentiment and maintain a good image of itself, regardless of the reality, and that requires keeping a tight grip on information.

The running joke amongst Chinese intellectuals about the state-run newspaper, The People's Daily, is that the only thing factual in it is the date. Even the foreign press and correspondents in China must operate within certain parameters to ensure they will not be detained or shut down.

Although it is unclear exactly how long the SARS virus has actually been around, one of the main reasons—perhaps the only reason—the Chinese government was forced to go from complete denial to finally admitting to the presence of SARS within a few months is because it is a disease that directly affected the international community and thus external pressure was brought to bear on the Chinese leadership.

This Commission wishes to learn through this hearing the “scope of media control and censorship in China.” I believe that the manipulation of information is such a crucial element in the identity and survival of the CCP that I submit to you today that without media control and censorship, it is very likely the Chinese Communist Party would quickly cease to exist in its current form. I say that because once the Chinese people and the world can take a good, hard look at the skeletons in the CCP's closet and the degree to which the Party serves its own interests to the detriment of the Chinese people, the very existence of the Party could very well be called into question.

And so, information control may be the Chinese regime's greatest source of strength, the key to its success, but at the same time, it could also very well be its most formidable weakness.

Manipulation of information as a source of power

The CCP has always been very systematic and consistent in its manipulation of information. Usually the image that is fed to the public often has little to do with reality, as the goal is political expedience, not balanced reporting.

Since the early days, the Party has known that media can alter reality in the minds of the people. As far back as the 1920s, when the CCP was still in its infancy, it had already set up a Department of Propaganda modeled after Stalin's system.

In 1957, the CCP began his first public purge of outspoken intellectuals in an effort to control what was being thought and discussed amongst the masses. Millions were sent to jail, “re-education” camps, and mental institutions for expressing their opinions; thus began the CCP’s success story of muzzling the people. Mao also tried to destroy traditional Chinese culture and values in an effort to better allow the foreign transplant of Communist ideology to take root and grow. The anti-Confucius campaign in the early 70s, for example, was aimed at removing all Confucian influence on Chinese society through burning books and denunciation of the ancient and deeply ingrained teachings.

In the early 80s, Deng Xiaoping initiated economic reforms in a move to save the collapsing economy. As historians have pointed out in recent years, however, “economic reform” simply meant that all the Communist Party had to do was slightly loosen its hold on economic activities. When Deng realized a certain degree of freedom of expression also started showing up with the package, some dissidents were arrested and there was a clampdown on free speech. Nonetheless, the economy started to grow and free expression among the populace also continued to find its outlets throughout the 80’s.

All that was to come to an abrupt end on June 4, 1989, as soldiers were ordered to shoot student demonstrators on Tiananmen Square. It is a testament to the power of China’s propaganda machine that despite the bloodshed we in the US saw on TV, to this day, apart from certain Beijing residents, many Chinese people continue to believe that no students were killed in the incident and that the victims of this so-called “counter-revolutionary rebellion” were actually the soldiers. This is the extent to which the Communist Party has been able to control the thinking of the people.

China’s Propaganda Ministry is both the CCP’s news watchdog and news generator because its censorship includes not only blocking information but also disseminating misinformation and controlling what gets said or not said, as we saw with the SARS cover-up. Every province in China, every city, and every workplace has a propaganda division to ensure that the press and other information outlets are consistent with the message or policy from Beijing. Foreign investors in China are also instructed to allow the government to set up CCP branch committees in their joint venture corporations so that Chinese employees will not be contaminated by foreign “unhealthy elements.”

The media has even become a deadly weapon for repression in China. Jiang Zemin, who was the Chinese president and is now its military leader, has been mindful of Mao’s remark that political campaigns like the Cultural Revolution “need to come every seven or eight years.” With such periodic “class struggles,” Mao believed that society would stay disciplined and united around the CCP dictatorship. Whipping up the requisite fervor to have such a struggle, however, requires both the suppression of true information and the creation and dissemination of false information. As a result, in the summer of 1999, Jiang ordered his propaganda machine to launch a smear campaign against a peaceful meditation practice called Falun Gong, blaming suicides and murders on Falun Gong practitioners.

For the past four years, the Chinese people see and read the negative propaganda. In the absence of other sources of information, how would they know that Falun Gong, like all practices of the Buddhist tradition, prohibits the taking of life and advocates non-violence and the principles of “Truthfulness, Compassion, Tolerance?” But the misinformation has prompted neighbors to turn in neighbors, schools to expel their students, and families to turn against their loved ones. If people are repeatedly told that police have never tortured or killed anyone who practices Falun Gong but rather treats them with humanity, how is anyone to know about the countless eyewitness accounts of torture and even murder of innocent Falun Gong practitioners in the labor camps and “re-education” classes? This atrocity, unfortunately, is still being played out, even though it violates every human rights code, including China’s own constitution.

#### *Cyber Censorship*

The latest battleground for information control is the Internet. Guo Liang of the Chinese Academy of Social Sciences in Beijing told the Committee to Protect Journalists (CPJ) a couple of years ago: “Mao Zedong said that to have power you need two things: the gun and the pen ... The Communist Party has the gun, but the Internet is now the pen. If they lose control of it, something will happen to challenge their authority.” Incidentally, the CPJ lists Jiang Zemin among the top ten enemies of the world press.

And so, thousands of Internet cafes in Beijing and all over China have been shut down for “security reasons.” All Internet services are required to install filtering

software to block prohibited sites and monitor some 45 million Chinese Internet users.

One notable case involves Miss Liu Di, a 22-year-old student who was arrested on the campus of Beijing Normal University on November 7, 2002, on the eve of the opening of the Communist Party's 16th Congress. She had posted messages signed "the stainless steel mouse" in discussion forums. Reporters Without Borders reports that the authorities accuse her of "jeopardizing national security." Her situation is perilous as China's Supreme Court determined in January 2001 that the punishments for breaking the law on state secrets and the dissemination of information jeopardizing the state included the death penalty. Liu Di's family has still not been allowed to see her and authorities say they are not revealing her place of detention in order to put "pressure" on her.

Just a few days ago, four more young Internet dissidents were sentenced to prison terms of up to 10 years for discussing the growing social problems and for posting reform-minded essays on the Internet. Reporters Without Borders estimates that more people are in prison in China for expressing their views on the Internet than in any other country in the world.

The arrests of this new breed of cyber dissidents are the result of a program called "Golden Shield." Researchers say this secret program was proposed by the Ministries of Public Security and Information Industry and assigned sizeable financial and human resources. It involves a cyber police force of an estimated 30,000 persons and it is capable of spotting, identifying and arresting dissident Internet users. The government has also issued more than 60 laws and sets of regulations about use of the Internet.

One incident that raised eyebrows in the international community was a decree from the CCP in early September last year that banned the Internet search engines Google.com and AltaVista.com. Unlike some other media, as search engines, Google and AltaVista are apolitical. One week after the initial ban, Google was back in China, but only partially. The UK-based Guardian noted: "...when the magic name of Chinese president Jiang Zemin was entered, Google consistently replied that the information 'is currently unavailable'... A click on 'BBC News' produces a blank and even the weather in England and Scotland is banned."

Beijing denied all knowledge of this ban, as it normally does with its other forms of censorship. One Hong Kong's human rights group reports that over 500,000 foreign websites are currently blocked in China on the grounds that Chinese people might be exposed to pornography and other "unhealthy elements" from abroad. Among such "unhealthy" websites are news sites for The Washington Post and The Sydney Morning Herald, to name a few.

#### *US Government and Private Sector Efforts*

The US government's efforts to bring alternative sources of information to the Chinese public are consistently blocked. Although many in China try to listen to Voice of America and Radio Free Asia on short-wave radios, the frequencies for these two US-based media are jammed in China. China guards its information monopoly jealously. An American citizen, Dr. Charles Li, is currently serving a three-year sentence in China on charges of allegedly "preparing" to break through a television signal to broadcast outside information to the people of China. He has been held in a Chinese prison for more than four months and has gone on a hunger strike since May 27 according to a US consular based in Shanghai. Dr. Li has been reportedly beaten, given forced feeding and brainwashing classes. The US government and Dr. Li's fellow Americans should all pay attention to the case because no matter how much we hope the Chinese regime is now telling the truth about SARS or anything else, as long as Dr. Li and all the other dissidents who have tried to break through the censorship remain incarcerated, it should be painfully obvious that China's clamp on information is every bit as strong as it ever was.

As for the private sector, rather than bringing greater freedom to China, in the scramble for profits, some Western companies are instead more likely to be bringing Chinese-style censorship to the West. While US government attempts to get information into China are consistently blocked, Chinese government propaganda is welcomed daily into American homes. Many of you may have heard about a major US media company's deal to bring cartoons and entertainment programming to certain outlets in Southern China in exchange for putting content from China's state-run television system, CCTV, on cable in the United States. This US company willingly signed an agreement that it would refrain from broadcasting the news or any other programming that might be considered "sensitive."

It is also common knowledge that many Chinese language newspapers, radio stations and TV stations in the US are actually backed by the Chinese Communist Party and have been spouting the Party line from SARS to other issues such as the

US war against Iraq. For example, a Chinese TV network in New York recently repeated Beijing's SARS death toll, which was suspiciously low relative to the numbers released by the World Health Organization. For many Chinese-speakers, this TV station might be the only source of information. In a sense, the whole culture of fear and repression is also exported along with TV programming. Many overseas Chinese do not dare speak to reporters or say what they think about the Chinese government for fear that agents from the Chinese Embassy and consulates are watching or tapping their phones. Oftentimes their fears are not unfounded.

In the interests of not only free speech but also U.S. national security, I would have to suggest that the US government encourage and support the existence of alternative sources of Chinese-language media within the US to provide a counterpoint. The people of China are important, and so are the Chinese Americans in our own backyard.

Other parts of the private sector in the U.S. seem also more likely to bow to censorship than advocate free speech in China. The Los Angeles Times reported last year that some 300 Western businesses and other organizations signed what was called the 'Public Pledge on Self-Discipline for China's Internet Industry,' otherwise known as a self-censorship agreement.

Moreover, it is no secret now that China's sophisticated firewall was built with the assistance and know-how of overseas corporations. With technology so obviously being used to implement repression, the software industry has become somewhat more tight-lipped about its long-time claim that technology transfer can only help the cause of democracy and freedom in China.

There are, however, private companies that are attempting to break through the firewall. I have recently learned of a software company that has developed an Internet anti-censorship technology that can avoid being blocked and is able to deliver web content to users inside Mainland China. Their system has been in service for about ten months. Even with limited resources, the company states that the current number of daily users reached through their service is over 30,000 with over 7 million hits daily. Apparently with greater demand for news about the SARS and other critical matters, more and more web surfers in China have been accessing overseas websites over the last couple of months and this new technology is there to help them. Companies like this one, I must add, need the financial support from our government for research and development, as well as for bringing down the firewall of China.

#### *Chinese government and media reaction to SARS*

In the run-up to the critical 16th People's Congress last November, China's Propaganda Department was working overtime, sending out a hefty memo to editors informing them which topics were considered off-limits—basically anything and everything that could possibly reflect poorly on the Party's job performance, even industrial accidents and a food poisoning incident. The Propaganda Department warned the media: "For those newspapers that frequently have problems, we'll discuss whether to let them keep running."

Under these conditions, no reporter dared touch the topic of SARS, or known in China euphemistically as "atypical pneumonia," a mild term that conveys none of the severity of the actual disease.

There are few of us here who have not heard about the media blackout during this time, about how it was not until about April 20 of this year that the Chinese leadership admitted that SARS existed as an issue. The official figures went up and the government decided to fire scapegoats Health Minister Zhang Wenkang and the mayor of Beijing Meng Xueinong for what state media said was their inadequate response to the outbreak. The leadership claimed it was now going to come clean with the WHO.

On Monday, June 2, however, AP reported that a top Chinese health official, Gao Qiang, was still trying to deny claims that Beijing tried to hide the seriousness of the SARS virus. He claimed that the government warned about SARS as early as February and that early efforts to fight it were slowed by poor information.

In addition, getting accurate numbers in China is a little easier said than done. Asia Times reported this past Monday that there appeared to have been an outbreak in SARS at a residential complex called Beiyuan Gardens. With more than 10,000 residents living in close proximity to each other, the outbreak threatened to be the next Amoy Gardens—the Hong Kong housing complex where more than 300 people contracted SARS and about 35 died. Asia Times reports: "Beijing media have yet to report on the situation at Beiyuan Gardens. Some residents have tried to bring attention to their situation via public websites, but, for example, their information was deleted within less than a minute after posting it on the popular Internet portal Sina.com. Even their telephones are now unable to send out text mes-

sages—Beiyuan Gardens residents have become overnight outcasts. Having fallen into despair, some residents of Beiyuan Gardens sent a letter to Wang Qishan, Beijing's new mayor... Complex residents are still waiting for Mayor Wang's response."

Does this sound like the reaction of a government and a media that are committed to transparency? In Hong Kong, residents of the Amoy Gardens were quickly evacuated, quarantined, and given food, shelter, and medical care. In Mainland China, it appears the residents of Beiyuan Gardens are being shut out by the security apparatus and left to their own devices, free to contract SARS and infect others.

In China, the leadership can claim to be reporting accurate numbers, but the truth is, who is to say they are not playing a cat and mouse game with the World Health Organization? Who is holding it accountable? Even in the midst of a global SARS crisis, the Chinese regime still keeps a close eye on its political interests. For example, the regime insisted on blocking the WHO from sending inspectors to Taiwan to help them control the spread of the disease. Some things never change.

*Long-term Impact?*

As for any long-term impact the SARS crisis will have on transparency and media control in China, it would be difficult to draw any conclusions at this time. We do not know how long and how serious the SARS epidemic will prove to be and how much of an overall impact it will have on China's economy. We do not know how the different factions in the government will behave. Given the Chinese Communist Party's track record and its willingness to resort to any and all means in pursuit of self-preservation, however, my sense is that making China into a more transparent and open entity could be a bit like asking a tiger to turn vegetarian. In its eyes, giving up meat could endanger its very survival, and by the same token, a totalitarian regime without media control wouldn't be much of a dictatorship at all.

There is one thing that the SARS epidemic, in spreading to other nations, has done, and that is to focus more international attention on the issue of transparency in China. The way the Chinese regime attempted to cover up the situation and to disseminate falsehoods both domestically and internationally seriously damaged its credibility, but it is a lesson China needed to learn. It has been a wake-up call for foreign governments, too—a reminder that this is still a repressive regime that has been a compulsive liar for more than 50 years. Maybe SARS will take away some of the blinders of the US private sector when it comes time to assess the uncommonly rosy economic figures that China puts out every year.

Certainly SARS has made the ASEAN nations reconsider their relation to China as their tourist revenues drop and their economies suffer. As one Hong Kong based reporter wrote in late April this year, "In contemporary international relations, soft power matters. Reputation, transparency and accountability are all important measures to reflect one's standing in the global hierarchy. In its mishandling of SARS, China has squandered precious political capital that it has built up over the past five years. It will be a long time before China can restore its internal and international position..."

Thus, while the SARS crisis itself may or may not make China change its long-term habits, perhaps one lesson the international community can draw from this is that external pressure works. If a behavior endangers human lives, instead of coddling China or keeping a deferential distance, China can be pressured to do better. Over time, better behavior is better for the Chinese people, for the Chinese regime itself. Ultimately, better behavior and a little humility could have far-reaching implications for the creation of a more open society that is better equipped to participate in the international community.

Chairman ROBINSON. Thank you. Very well done.

Dr. Yu, please.

**STATEMENT OF MAOCHUN YU, ASSOCIATE PROFESSOR, UNITED STATES NAVAL ACADEMY.**

Dr. YU. Thank you, Mr. Chairman, and Vice Chairman and members of the Commission. I have prepared a rather lengthy written testimony for the Commission. I hope that every member will have a chance to read it. So I will just cherish my precious 10 minutes and verbally summarize what I think are the salient points in my written testimony.

First of all, I share the sentiments of the previous panelists on the overall situation in China in this particular aspect. My overall assessment of the impact of the SARS crisis on Chinese media pol-

icy and also the government is not very sanguine, for many reasons.

I will say this: As the previous panelists have indicated, there is a symbiosis between media censorship and total control of media and the survival of the regime. Once the media control is relinquished, then the survival of the regime will be in question.

Secondly, if you look at the history of the Chinese Communist Party, even the most liberal leaders could not deviate away from total media control. I'll give you the example of the late, very liberal-minded Party Secretary General Hu Yaobang of the late '80s. Many people really loved him for a lot of things he did, but then there was one thing that he would never give away. That is his very conservative policy over media.

Also, it's not just a conscientious effort to do this, it has become a habit. It's a way of life for the leaders to control media. As a matter of fact, I was told by some friends in the U.S. Administration that it took the United States Government about 20 years to convince the Chinese leadership of one very simple truth: that is, the President of the United States does not have the power to fire the Beijing Bureau Chief of the New York Times. And to the Chinese leaders it was amazing that could happen.

So, my overall assessment is that the SARS crisis, no matter how profound or how large scale it might be, will have very little impact upon the policy of media of the government and of the Party per se. Having said that, I do think that there are some very interesting phenomena that have come out of the SARS crisis, that have exerted a lot of impact upon society as a whole and the people as well, and I'm going to just spend the rest of my minutes to summarize some of the major aspects of that.

One of the most amazing things was the role of foreign media. The foreign media in China traditionally was looked upon with some kind of suspicion, but this time the SARS crisis changed, in a very big way, how the foreign media is regarded by the Chinese people.

And I know some reporters in China who work for the major media outlets in the United States. They have told me, through e-mails, through phone calls, during the SARS crisis, that people on the street were much more willing to talk to them, with much less restriction and concern, because they believe that it is the foreign media that first broke the issue and pursued it. And I think the prestige of the foreign media in China has increased dramatically.

Another example is that throughout the entire SARS crisis, foreign media has been overwhelmingly critical of Chinese Government, and normally the Chinese Government would jump to its feet and denounce the demonization of China by foreign media. But this time they didn't do that. Instead there are only two major cases that come open, saying foreign media is bad. And the cases involve two professors, both of them from Qinghua University. One is the economist, Hu Angang. The other is the journalism professor, Li Xiguang.

In both cases, when they began to bad-mouth foreign media, they instantly became the target of ridicule, merciless ridicule, on Internet, mostly on Internet. So it shows that people have spoken about this.

And the second impact, I would say, is that this SARS crisis further deepened the rift within the ruling elites. Now, I don't want to exaggerate the rift, as some political scientists and historians, as well, have tried to let us believe. But I will say this, political change always comes with the division of the ruling elites.

You see this in Europe. For example, in former East Germany you see the rift between Erik Honecker and Egon Krenz, and you see this rift in the former Soviet Union between Gorbachev and Yeltsin. And I think that there is similar rift, even though on a much less significant scale, in China between Hu Jintao and Jiang Zemin, and it is this rift that creates some kind of very, very dubious competition for truth-telling.

Hu Jintao was the guy who was credited for ordering this truth-telling about SARS crisis, and he became kind of popular. And Jiang Zemin, of course, forever trying to grab the media spotlight. So, on May 2, 2003, Jiang Zemin ordered to tell the submarine incident in the open, truthfully, which was a result of that kind of dubious competition for truth-telling, and because he doesn't want to lose the spotlight. He wants to be popular again.

And, once again, I don't want to exaggerate the effect of that, but I think it's a very important beginning sign of that. I hope that rift will continue but, you know, it looks less likely.

Now, the third impact I think that might potentially be very profound is that the SARS crisis will undoubtedly increase the Party's effort to improve the internal reporting mechanism of the PRC. China has had a very powerful and extensive internal reporting mechanism.

Recently, on May 30, just last week. China's Vice Health Minister, Gao Qiang, came out to explain why the Health Minister, Zhang Wenkang, and the Beijing Mayor, Meng Xuenong, were fired on April 20th. And his explanation was rather startling.

He said those people were fired not because they didn't tell the truth. No. They always told the truth. They were fired because they could not get the factual data from the bottom to the Central Committee. This means they were fired not because of media control, nothing to do with that, or lying, but because they didn't really work hard enough to organize this kind of internal reporting system within their different, respective turfs. So that shows that there will be more effort working on that from the Party's point of view.

And the next impact, I would like to submit to you, is this: SARS is a social crisis, as well as sort of a cultural crisis, because in many key areas, such as the people's attitude toward Taiwan here is, you have had this willing population to go along with the Party line. I call it the banality of deception—to paraphrase Hannah Arendt's "banality of evil." "Evil" is too strong a word. I know it's very popular in Washington these days.

But banality of deception means that on issues like Taiwan, Tibet, and U.S.-China relationship, you have a lot of people who previously were basically unthinking. They toed the Party line subconsciously. Now this time, because of the SARS crisis, the Chinese Government image is totally discredited in many sectors.

During the SARS crisis, Taiwan reacted violently against China. If you listened to Chen Shui-bian and Annette Lu, they were talk-

ing about a popular referendum on WHO membership. The Vice President of Taiwan was talking about, you know, changing the name of SARS to “Chinese Acute Pneumonia.”

It’s very cantankerous, provocative, yet you didn’t see any public outrage, as you would have definitely seen, particularly in the “super-patriot circles” like college campuses. Which means there is sort of a gradual awakening of the populace against the sort of usual deception put out by the Party.

Once again, I’m not trying to exaggerate the extent to which this awakening is taking place, but I think there are some other—how am I doing on time?

Chairman ROBINSON. You have all kinds of time, 5 seconds.

Dr. YU. Five seconds? Well, all right. There is a lot of raw satire, you know, in China, on Internet. It’s just amazing, the satire, which means, you know, the popular culture.

It reminds me of the situation on the eve of the French Revolution and also on the eve of the American Revolution, where you have a lot of satire. People realize the situation is not just bad, it’s ridiculous. When you realize it’s ridiculous, then people want to get rid of it. I have several more points, but it’s all in my written testimony, so I’ll stop here.

[The statement follows:]

PREPARED STATEMENT OF MAOCHUN YU

[Views expressed here are my own, not those of the Department of Defense or any other organizations of the U.S. Government]

Mr. Chairman and members of the Commission:

I am pleased to have this opportunity to share my views with you on this vital subject. Your letter of invitation to this hearing indicates that four issues will be addressed here today. They include 1) the scope of media control and censorship in China; 2) U.S. Government and private sector efforts to bring alternative sources of information to the Chinese public; 3) the PRC Government and media’s reaction to the SARS epidemic; and 4) whether the SARS crisis will have any long-term impact on transparency and media control in China. While I plan to address these issues as a whole, I will spend more time focusing on the long-term impact on transparency and media control, as other panelists with respective areas of expertise will undoubtedly discuss other issues on the agenda in greater details.

*Overall Assessment Of Sars’ Impact On China’s Media Control And Government*

Before I attempt to address the question of whether the SARS crisis will have any long-term impact on transparency and media control in China, I would like to point out one fundamental fact about the People’s Republic of China: media control and censorship in China is TOTAL. The absolute seriousness with which the Chinese government takes control and censorship of the media has a symbiotic relationship with regime survival. The CCP leadership believes that news reporting serves one purpose only, to function as the mouthpiece of the Party. While China is rapidly moving toward economic diversification, ownership and editorial control of media outlets remain strictly in the hands of the state. Whenever any slight deviation away from the Party line by any media outlets occurs, the Party has the unquestionable power to punish the media outlet with a wide range of methods, from firing the reporter or editor involved to outright closing down of the outlet, and even imprisonment of the reporters.

Consequently, China has been among the worst offenders against the freedom of the press in the world. Each year, more journalists are jailed in China than in any other country. In 2002, the Paris-based Reporters Without Borders evaluated the level of media control among 139 countries. While North Korea ranks at the bottom (139th), China, by a small margin, is ranked at 138th.[1]

It would therefore require an enormous institutional overhaul, or regime change, to replace the systemic mechanisms that cause such offenses. Since regime survival requires absolute control over the press, that control will not be relinquished voluntarily simply because of a SARS scare.

Therefore, I seriously doubt that the recent love-fest about “truthfully reporting SARS realities” will bring any substantial trend inside the Chinese government for a fundamental change to the way the government handles media. Whether the Chinese government is up-front concerning one particular disaster or not is much less relevant than the Party’s absolute insistence on controlling truth-telling.

The truth-telling about-face was ordered by the Politburo on April 20. It is precisely that—an order. The Party maintains a firm grip on truth-telling and the Party alone decides when and how to report what is going on. When the Party senses the crisis is under control, it can easily order all news media to strictly toe the Party line and go back to the usual business of arresting journalists and jailing Internet opinion makers, as events in China in the last couple of weeks have clearly indicated. [2]

#### *Promising Fallouts Of Sars Crisis On Media And Government*

While the SARS crisis may not bring fundamental changes to the Chinese government’s media control mechanisms, it has resulted in several phenomena that have great potential in changing Chinese society as a whole. I will attempt to sort out the salient aspects of these new phenomena arising out of the SARS crisis.

1. *The Prestige Of Foreign Media Among Ordinary Chinese Has Skyrocketed As A Result Of The Sars Crisis.*—Never before in its history has the PRC stopped demonizing the mainstream foreign media as “bourgeois” or as the “mouthpiece of international anti-China elements.” It took the U.S. State Department several decades since the late 1970s to convince the Chinese leadership that the president of the United States DID NOT have the power to fire the Beijing bureau chief of the Washington Post or the New York Times. On issues such as the 1989 Tiananmen Massacre, Tibet, Taiwan, PLA, human rights, and CCP’s bureaucratic malfeasance, Chinese officials have often attacked the foreign media as demonizers of a rising China, as harboring sinister motives to contain a China that has been bullied by westerners for over 150 years, and as “having severely hurt the feelings of the Chinese people.” Quite frequently, there is a government denunciation of some sort when a major event in China is being reported by foreign media. With total government control of news access, most Chinese people do not have an alternative view on how the foreign media reports on China and many have believed the Party line. As a result, there has been widespread skepticism among the Chinese population about western media.

Yet, the SARS crisis has changed this pattern of demonization in a remarkable way. With the exception of the war in Iraq, SARS developments in China remain on the front page of many western newspapers for weeks and months. It is the western media, such as the venerable Washington Post, the New York Times, and Time magazine that pursue the SARS stories doggedly and produce enormous amounts of information on the epidemic.

These timely, detailed and often devastating reports reached the Chinese via the Internet, international broadcasts and CCP’s “internal reference” system (neibu cankao) and created a sharp contrast to the Panglossian Chinese official media reports on SARS. Then two things happened miraculously: the Chinese government unprecedentedly failed to criticize the voluminous “negative” reports on SARS in China and, on April 20, the Chinese government did an about-face admitting there had been a cover-up about SARS in China. This is an oblique way of saying that the western media has been right about this vital matter and that the people of China have more reason now to trust the much denounced western media than the Chinese government and the Chinese media under its firm control.

Throughout the SARS crisis, the tone and contents of the western media reports have been overwhelmingly critical of the way the Chinese government has handled the SARS crisis. Yet surprisingly, the usual government attacks on western media are mostly absent. There have been only two isolated cases of protest against the western media’s reporting on SARS. One was from economist Hu Angang, who in early April issued a stinging attack on the so-called anti-China biases in SARS reporting by western media. The other was from China’s foremost critic of western media, Professor Li Xiguang of Qinghua University, who has denounced the SARS reporting by western media and WHO as “hype” and “anti-China.”

Yet, quite interestingly, these two scholars instantly became the targets of merciless ridicule on high-traffic Chinese Internet sites and basically made fools of themselves in the eyes of the nation. [3]

Even up to today, every dispatch from China by the Washington Post or the New York Times is instantly translated into Chinese and posted on many high traffic Chinese Internet news networks such as [www.chinesenewsnet.com](http://www.chinesenewsnet.com), [www.epochtimes.com](http://www.epochtimes.com), [www.ncn.org](http://www.ncn.org), [www.bignews.org](http://www.bignews.org), [www.observechina.com](http://www.observechina.com).

2. *The SARS Crisis Divided The Chinese Ruling Elites.*—The total control of news media in China is predicated on the solidarity of the Chinese ruling elites. Yet the SARS outbreak has deepened the rift between factions inside the CCP high command. This has created a situation that is indirectly constructive in producing press openness. When President Hu Jintao ordered an about-face on April 20, launching a “people’s war against SARS,” he became increasingly popular among ordinary Chinese. In contrast, Hu’s rival faction, led by the Chairman of the Party’s Central Military Commission, Jiang Zemin, is believed to fear its slipping relevance in Chinese politics. On May 2, Jiang made history by ordering the publication of a news item truthfully admitting the loss of a PLAN Ming-class submarine and its crew of 70.

This news item is stunning to the world, as the PRC has never disclosed any military disaster of such a scale. Had there not been Hu Jintao’s “truthfully reporting SARS realities,” Jiang would never have felt upstaged and thus ordered the news release of the submarine tragedy. The news item itself became a sensation, and many see it as a sign of China’s new openness in news reporting, no matter how premature this optimism may be.

Nevertheless, the widening rift between the two factions in China continues to play a nuanced role in politics and remains an interesting development to watch.

3. *CCPS’s Internal Reporting System Will Be Improved. The CCP maintains a massive internal reporting system throughout China.*—The system functions as secret channels to the highest authorities for social control and policy making. The irony is, while the entire world believes China’s controlled and managed media reporting was at fault for the out-of-control SARS epidemic in China and much of the world, the Chinese government has learned a totally different lesson: media control in China has nothing to do with the spread of SARS, and the SARS crisis was never a result of a news cover-up, but rather of a bad internal reporting system inside the Party and Government. When China fired the Health Minister Zhang Wenkang and Beijing Mayor Meng Xuenong on April 20, the world praised China for facing up to the deceptive media policy conducted by the two high CCP officials.

Yet the world was wrong, because Zhang Wenkang and Meng Xuenong were fired not because they lied to the public about the SARS statistics, but because they could not get their acts together and get accurate, coordinated SARS statistics to the top leaders. On May 30, Gao Qiang, China’s second in command in the “people’s war against SARS,” emphatically denied at the State Council press conference that lying was the reason why Zhang Wenkang was fired, and that “Comrade Zhang Wenkang” was removed because he failed to coordinate intra-ministry data gathering mechanisms.

When Hu Jintao and other Chinese officials speak of “truthful reporting,” and when the State Council in mid-May issued “the Regulations on Emergency Public Health Incidents” (tufa gonggong weisheng shijian yingji tiaoli), they did not mean “reporting” to the public via free media, they meant reporting to the central government through secret internal channels. In fact, the newly issued “Regulations” specifically prohibits “any work units or individuals, including news organizations, from making public any information about emergency public health incidents.” [4]

Therefore, since regime survival is the obsession, the current SARS crisis may result in a swift change of China’s massive internal reporting system, which is designed for the secretive Party elites for social control and policy making. More sycophant and incompetent Party hacks may be weeded out and some draconian Party disciplinary measures may be instituted to prevent apathy and deception to the Party Central (not to the public as a whole) when it comes to reporting epidemics or other disasters that may affect the Party’s tight grip on power and the society.

But this is still not a genuine reform in allowing a free press to exist, because genuine press reform WITHIN the existing political system is suicidal for the Chinese Communist Party.

4. *The SARS Crisis Has Significantly Eroded The Banality Of Deception Within The Chinese Society.*—After five decades of non-stop managed news reporting and total domination of media, there has developed in China not just a severe lack of objectivity and balanced perspectives on current events among the Chinese people, but also, far more importantly, a uniform way of thinking about key issues in life. People are used to lies and deceptions; those lies and deceptions have become banal and prosaic, so much so the people take them for granted. This is especially true when it comes to issues like Taiwan, Tibet, or U.S.-China relations. The SARS crisis has begun to change this in a remarkable way.

One amazing example is how ordinary Chinese people responded to situations in Taiwan during the SARS crisis. Due to the anemic performance of WHO with regard to Taiwan’s SARS situation and its refusal to consider Taiwan’s observer status in the organization, Taiwanese politicians have reacted boisterously against China’s

stonewalling and obstinacy. Remarkably, President Chen Shuibian threatened to resort to an island-wide referendum on WHO membership; Vice-President Annette Lu has gone even further to attack the mainland regime, blaming the PRC for spreading SARS worldwide, demanding a PRC apology to the world, and suggesting changing the name of SARS or feidian (“atypical pneumonia”) to Chinese Acute Pneumonia.

In the past, cantankerous actions such as these by Chen and Lu would have surely ignited an avalanche of condemnation from ordinary Chinese people on the street or on the Internet. Yet the response to Taiwan’s outrage has been remarkably inconsequential and virtually non-existent among the usual “superpatriot circles” such as the college campuses.

Clearly, the conditioned mental response system is beginning to crack. It may be because more and more ordinary Chinese have felt duped by the state-controlled media and are realizing that they may have been the willing executioners of lies and deceptions over the years when functioning as unthinking “patriots” and as the Party’s “Angry Youths” (fengqing).

5. *The Sars Crisis Has Facilitated An Avalanche Of Reflections On Ccp’s Innate Mendacity.*—While the Party insists the SARS scandal is an aberration in PRC’s media history, there has been an outpouring of articles proving otherwise. On major Internet networks and some international radio broadcasting stations such as Radio Free Asia, many brave Chinese citizens, incensed by the SARS scandal, have turned themselves into devoted muckrakers exposing CCP’s horrendous history of lies and deception in the past. The most famous ones include Ren Bumei of Beijing, Donghai Yixiao of Hangzhou and Zheng Yichun of the Northeast.

Mr. Ren Bumei is tantamount to a weapon of mass destruction against the mendacity of the CCP. He set up an Internet website devoted to China’s political and media reform. His Internet site was so popular worldwide within the Chinese community that it has since been shut down. Mr. Ren has recently conducted two phenomenal studies with regard to China’s press control. One, entitled “A Critique of China’s Internet Legislations,” (zhongguo hulianwang lifa pipan) published in October 2002, is a scathing analysis of China’s repressive methods of controlling and censoring the Internet. The other, called *On the New Culture of Controlling Speech* (yanlun guan zhi xinwenhua), published in December 2001, is an analysis of the pernicious social and cultural consequences of China’s tenacious media control. [5] These two studies have been repeatedly cited by many Chinese on the Internet during the SARS crisis.

Mr. Zheng Yichun, an English professor in Northeast China, sees a pattern of lies and deception within the CCP. He has endeavored to compile a history of CCP mendacity, many examples of which have appeared in a special column designed for him on the influential Chinese news website [www.epochtimes.com](http://www.epochtimes.com). Throughout the SARS crisis, his writings and his voice have appeared on international radio and numerous Internet sites. Mr. Zheng has rapidly become a hero inside and outside China.

Based in Hangzhou, Mr. Donghai Yixiao is an influential iconoclastic Internet rebel, whose weekly columns appear worldwide. His savage attacks on lies and deception in China have gained him many admirers, as well as enemies within the government. As of this writing, his last column speaks of PRC cyber police’s blocking of his IP address, and his imminent arrest by police waiting in the neighborhood.

Without the SARS crisis and the political atmosphere of relative thaw because of the SARS crisis, outspoken individuals such as these three gentlemen would never have lasted long. It probably would have taken much longer for the public to recognize their courage and accomplishments.

6. *The SARS Crisis Has Helped Crystallize The Image Of The Government As Inept And Out-Of-Touch.*—It’s not a secret that the Chinese government has not been the most efficient in the world. Under Mao Zedong, the CCP government was regarded by many as totalitarian and fanatically ideological; under Deng Xiaoping and Jiang Zeming, especially since the 1989 Tiananmen Square Massacre, most Chinese consider the government as corrupt. The SARS crisis has added one more characteristic of the government to the thinking of the ordinary Chinese: it’s down right ridiculous. Throughout the SARS crisis, this aspect of the Chinese government and society has been expressed in a surge of folk satire. Throughout China during the crisis, on Chinese Internet, in emails and SMS (short messaging service) notes, billions of pieces of savage satires, clever rhyming couplets, mock Mao poems, etc., have created a bonanza of materials ridiculing the surreal dimensions of the situation. [6]

Humor is traditionally the weapon of the weak. But under extraordinary circumstances, humor, rumor, and satire can signal the emergence of enlightened

souls. Once people realize their daily situation is not only bad, but ridiculous, they may take action to facilitate the demise of the ancien regime.

7. *The SARS Crisis May Prove Instrumental In Creating Alternative Ways Of Reporting News In China.*—The Chinese government's information management system has been so thoroughly discredited during the SARS crisis, and the stake is so high for ordinary citizens, that a powerful impetus for an independent news reporting entity has emerged. Whether this impetus will lead to the immediate birth of an out-of-government news channel or not is largely dependent upon how the existing, scattered independent resources,—Internet forums, profit-seeking local dailies, and even Hong Kong/foreign related media outlets, etc— can get their acts together and do a much better job of reporting truths that might benefit both the populace and social stability.

The government, of course, will not like an independent news entity outside the editorial control of the Party, but they may not have any choice. Just remember this: 150 years ago when the momentous Taiping Rebellion broke out, directly threatening the regime survival of the Chinese imperial dynasty, the incompetent Qing Court had no choice but to lift the ban against ethnic Chinese holding military command. The result was the Chinese-commanded Hunan Army, which defeated the rebels, thus saving the regime but also sowing the seeds for the eventual downfall of the dynasty.

China's news reporters are all embedded with the Communist Party's propaganda apparatchiks, and some of the talented news reporting professionals are not very happy with this relationship. An independent, or even semi-independent news outlet might find many Jiang Yanyongs who would be willing to provide them with more accurate and truthful information to report to the public.

It is likely more people will be put into jail for doing this, but the likelihood will be lessened if the CCP leadership becomes smarter and less intransigent after the SARS crisis. They may realize that the best way to maintain social stability and international dignity is not to suppress truth-reporting, but to report truth as it is; and that societal stampede always starts with lies and half-truths. If the government news people can't do the job of truth-telling, then alternative reporting channels have to be used.

If this should happen, China's press freedom will have hope and China's reporters will be able to deliver truth and reality rather than the archaic proletarian gibberish of ostentatious profundity that still permeates China's news media of all forms.

All the above fallouts of the SARS crisis with regard to media control and censorship in China may or may not develop into major instrumentalities of fundamental change to repressive media policy and practice in China. Yet, we can only be hopeful that soon the Chinese will get rid of the old curse that Alexis de Tocqueville described as the ultimate antithesis to democracy in China. "The Chinese excel at preventing, not at creating." If a government is committed to preventing people from knowing things and doing things, instead of encouraging individual freedom and creativity, then the government is doomed to fail. And the whole world has the obligation to precipitate its downfall.

Notes:

[1] First Worldwide Press Freedom Index, RSF, see <http://www.rsf.org/article.php3?id=article=4116>

[2] "Chinese Government Is Blocking SARS News as Usual," VOA/Chinese, May 27 2003

[3] For a sample of these savage jeers, see <http://www.xys.org/xys/ebooks/others/science/dajia/news/sars177.txt>

[http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang\\_xinwen.txt](http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang_xinwen.txt)

[http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang\\_xinwen4.txt](http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang_xinwen4.txt)

[http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang\\_xinwen3.txt](http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang_xinwen3.txt)

[http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang\\_xinwen2.txt](http://www.xys.org/xys/ebooks/others/science/dajia/news/lixiguang_xinwen2.txt)

[4] "Chinese Government Is Blocking SARS News as Usual," VOA/Chinese, May 27 2003

[5] *Minzhu Zhongguo*, October 2002 issue and December 2001 issue.

[6] See for example, *A Complete Anthology of SARS Humor up to May 5 2003* (feidian youmo daquan), from the Chinese language Internet news service [Chinesenewsnet.com](http://Chinesenewsnet.com) or [duoweinews.com](http://duoweinews.com).

**Panel II: Discussion, Questions and Answers**

Chairman ROBINSON. Well, those were points powerfully made, and I commend you for your testimony, the longer one, really very enlightening.

With that, I would like to move to the question period and Commissioner Dreyer, followed by Commissioner Ellsworth.

Commissioner DREYER. Yes. One of the nice things about having fewer Commissioners here this afternoon is that we get more chances to ask questions, and I have two quick questions, one for Mr. Zhang and one for Professor Yu.

My question for Mr. Zhang is, you mentioned Ms. Liu Di, the Beijing University student who was arrested after she wrote—

Mr. ZHANG. Yes.

Commissioner DREYER. She was signing herself “stainless steel mouse.”

Mr. ZHANG. Yes.

Commissioner DREYER. And I am wondering if this is a conscious evocation on Ms. Liu’s part of Lei Feng, who always signed—he was Chairman Mao’s “stainless steel screw,” which as you know doesn’t translate well into U.S. English. And if so, it might be interesting to speculate on what she intends to achieve by evoking—she’s a different kind of Lei Feng, you see, advancing the revolution.

And for Professor Yu, it’s very interesting what you say about the rumor that they were fired because they were unable to derive accurate information from below. You’ve probably seen an alternate explanation for their being sacked, and that is the factional infighting between former General Secretary Jiang and current Secretary General Hu Jintao, in that Minister Zhang is supposed to be the protege of Jiang.

Dr. YU. Jiang Zemin, yes.

Commissioner DREYER.: Mayor Meng is supposed to be the protege of Hu Jintao. So if you would comment on that, but first, Mr. Zhang.

Mr. ZHANG. Thank you. I think both are model heroes, in Chinese term—

Commissioner DREYER. Role models?

Mr. ZHANG. Yes, but they are in a different timing and a different arena. One is, Lei Feng was supported and promoted by the CCP, the Chinese Communist Party, whereas Liu Di is a model hero to the freedom advocates.

And the timing is sensitive, because when Liu Di was arrested, that took place in November 7th last year, and that was on the eve of the opening of the Communist Party’s 16th Party Congress. So I would think that Liu Di was not intentionally trying to be a saboteger, to stir-fry any dissenting voices on Internet. She probably just was very innocent and expressing herself.

Commissioner DREYER. You don’t think she was consciously evoking Lei Feng?

Mr. ZHANG. I don’t think so.

Commissioner DREYER. It was just an accident?

Mr. ZHANG. I think it was an accident. I don’t think as a 22-year-old she—

Commissioner DREYER. She doesn’t remember Lei Feng.

Mr. ZHANG. Probably she doesn't remember Lei Feng very well, yes. He was in the Cultural Revolution.

Commissioner DREYER. Thank you. Professor Yu?

Dr. YU. Yes. If I might add to that question, I think there is also a linguistic nuance here. That is, about Lei Feng. The reason why Mr. Zhang says it does not evoke the image of Lei Feng is known as a "yongbushengxiude luosi," (the screw that never rusts), and Liu Di, is known as a "buxiugang laoshu," (stainless steel mouse). Now a "buxiugang" and "yongbushengxiu," (never rust) might be the same thing in English, but in Chinese they are miles apart. So I think that's why there is a linguistic nuance there.

But back to the question that you asked, and it's an excellent question, and I don't think, anybody could have a very satisfactory answer to that question, whether those two were fired because of merit or because they were sort of balance of power, I fire one from one faction, then another one would be fired as well, to keep "pingheng," balance of power among opposing factions.

But I will also say this. Zhang Wenkang was the public face of that sort of deception. People perceived that he lied in the open. And when Jiang Yanyong, the Army doctor, came out and said, you know, "Health Minister Zhang Wenkang was obviously wrong," then he had to go. About Meng Xuenong, there is really no explanation as to why he had to go. Even when Gao Qiang came out to defend Zhang Wenkang on May 30th, he didn't mention a word about Meng Xuenong.

So yes, you are right. I think that your implication was absolutely right. There is a factional factor there, but I suspect that also Meng Xuenong would definitely be responsible because this would be his turf in Beijing, and if he could not get the data in Beijing right, he probably would be blamed for it as well. So I'm sure internally there might be some kind of arguments back and forth.

Chairman ROBINSON. Commissioner Ellsworth?

Commissioner ELLSWORTH. Thank you, Mr. Chairman. I have two quick questions, one for Professor Yu and one for Mr. Xiao.

You all have spoken about SARS as a huge problem for China, and its impact on the Internet and other communications. Speculate just very briefly, why HIV, which is a much, much bigger problem for China than SARS—the mortality rate is 100 percent for HIV, and only about 5 or 6 percent for SARS. Why is it that SARS has made such an impact and HIV has not?

Dr. YU. That's an excellent question. I think it once again testifies to the very interesting phenomenon of Chinese governance, that is, unless you have a very strong external pressure on it, the government cannot itself reform, react internally, because it's devoid of many internal self-rejuvenating mechanisms.

The reason why SARS is such a big deal is because of the international pressure. It is because of the foreign press. It is because of the foreign governmental reaction, and also the business circle. You have a massive exodus of businessmen, and also, you know, international conferences were being cancelled, soccer was not played over there. The foreign governments ordered their personnel to leave China.

So even though it was not immediate response to a certain certifiable disaster, it is the uncertainty, the fear of the unknown that

really scared the international community. Once that happened, government has no choice but to react.

When you come to the HIV, it's a known disease. They can cover up, we know how HIV is transmitted, in other words, if you don't go to Henan, go to the places infected and don't do certain things, you're probably less likely to be infected.

SARS, however, is scary and unpredictable, and that's why government responded. And I think also government itself, once again, back to my earlier point, and that is, they have no clue as to how this happened, why this happened, and to what extent the government itself—

Commissioner ELLSWORTH. Neither does anybody else.

Dr. YU. However, it originated in China, and you do have a lot of outbreaks in Guangdong, and the cases were increasing very fast. And I think it is a general panic, within and without, caused this—

Commissioner ELLSWORTH. You mentioned the French Revolution. Do you want to comment on Zhou Enlai's famous reply to Kissinger, that it's too early to tell what he thinks about—

Dr. YU. Well, first of all, there are a lot of mythologies about Zhou Enlai. I mean, he is perceived as legend of wisdom. Well, he never said those words. As a historian, I know that. Another mythology says John Foster Dulles refused to shake hands with him. Never happened. You know, it's just all this Cold War things that became widely circulated by mistake.

But I think the French Revolution, I think that happened about the right time, you know, not too late, too early. And you know, if you think about what's going on there, you know, the ridicule of Louis XVI and the ridicule on the eve of the American Revolution and the ridicule of George III, and you see the same rhetoric in China, ridicule of the Party leaders and, you know, even those professors who defend the regime.

And you see this surge of popular culture, and I think that's a very healthy sign. That means the society is no longer black or white.

Commissioner ELLSWORTH. But to me, Mr. Chairman, the most important thing that Professor Yu has said is that he thinks it was outside pressure from the world on the Government of China that had such a big impact—

Dr. YU. Absolutely, yes.

Commissioner ELLSWORTH: On this SARS.

Dr. YU. I would also like to add to my point, that if you look at the history of China, in most cases the successful social changes and, the revolutions, took place because of outside pressure. You cannot imagine, without international pressure, the 1911 Revolution would succeed. Even the Communist Revolution itself had strong outside influence.

Of course, there are a lot of internal mechanisms, but I think in China right now the international pressure, outside factors, play an enormous role.

Commissioner ELLSWORTH. Thank you.

Mr. Xiao, tell us a little bit, if the Chairman will allow you, tell us a little bit about the Berkeley program, will you, please?

Vice Chairman D'AMATO. We like Berkeley. Go ahead

Mr. XIAO. Maybe some of you know that I was the Executive Director of Human Rights in China for 12 years, and actually I just left that position and starting this new program, founding this new program called China studies program, Internet studies program, in Berkeley Journalism School.

The hope is that, the mission of the program is to advance the better understanding of this important development of the Internet in China. China is changing. The Internet is vastly spreading over the society, but a very concrete question is, how an open technology, open networks, can be adopted by this closed regime, and what will happen when these two meet together. Actually my study on the SARS situation is very much focused on that situation, that question.

Let me, give me two minutes also to respond also your previous question to Professor Yu about the HIV and the SARS. I agree basically with what Professor Yu said. I want to add some of my own observations.

I think we want to look at the Chinese Government in this issue, the response, not primarily, not presently is to care about the lives, the people's health. They all think about stability, and stability in China now, first of all, is the economic growth and the foreign investment.

When SARS spread to the world, when the foreign government and media protest, when there is investment, foreign investment will withdraw, when the international relation will be sour, that's where the government reacted strongly on April 20th, not before that. Before, they were trying to control it.

And that leads to a second question. The AIDS, for example, Henan Province for years, for almost a decade that over a million people are dying, the government not do anything about it but also try to control the information, also because the discrimination to the population. They are the rural peasants. Nobody knows about them.

But this time SARS break out in Guangdong and Beijing, two most populous and developed areas, and the government cannot afford to let those two areas, the foreign investment withdraw, and economy goes down. And that is, I think, the essential way to look at that question.

So back to my, actually finally I want to say, it's not clear what lessons Chinese Government really learned from this so far. They backtrack on the Minister of Health, saying he is not just in line, is a dangerous sign. They did not learn about transparency, but they are still learning about what's best way to control the situation.

Chairman ROBINSON. I think that, Ambassador, that you've raised a key point about the outside influence and its profound impact in so many different areas. We've talked about the economy as the area that is arguably most compelling because of the need for access to, obviously, investment and capital more broadly.

You can see it in the corporate governance dimensions that are being thrust upon China, that it's not anxious to deal with, vis-a-vis the state-owned enterprises that are listing on the New York Stock Exchange and other world exchanges. That was, in effect, a free lunch program as well for quite a while.

But when we sustained a corporate governance crisis in this country of the WorldCom, Enron, et al, variety, those state-owned enterprises came under significant scrutiny by prospective investors and the investment bank issuers, and as a consequence they had to worry about minority rights, adequate disclosure, who their senior managers really are, what their global activities look like.

That's my own observation vis-a-vis the financial sphere, but it has been very illuminating today for me to see how many areas are being affected by, in effect, the information revolution.

Commissioner DREYER. But just to add something to Ambassador Ellsworth's question about the difference in response to SARS and AIDS, SARS is something you catch very quickly and is transmitted very easily, whereas with AIDS, you can be HIV-positive for years and not have it show up, and when it does, the symptoms come on very gradually. And so that's another tremendous contrast, along with the fact that the people who are affected are mostly poor peasants in Henan or ethnic minorities on the border with the Golden Triangle.

Chairman ROBINSON. Moving on, Vice Chairman D'Amato.

Vice Chairman D'AMATO. Thank you, Mr. Chairman.

I want to pursue this question a little bit more, so I understand what it is that the Chinese Government is doing right now. It looks to me like they're responding to this crisis by shutting down the information transparency again, and trying to develop a better reporting system for its own uses.

If that's the case, what is the source of outside pressure that will continue what we saw in the way of opening up, or is that just a one-time affair? How will this be sustained? If our goal is to try and develop more openness in Chinese society, what will be the motivating source to accomplish that, if they develop a more effective reporting system and then just continue to shut down, their own sources of information to the journalistic community, both domestic and international?

You want to take a crack at that?

Dr. YU. That indeed is the core of all the issue. The issue is not how open the Chinese Government might be at this moment or tomorrow or yesterday. The key issue is, who has the right to tell the truth and who controls the access to reporting?

If you listened to Zhu Rongji, the previous Prime Minister, he constantly was baffled by all the reports he received from below. He had some problem with that. So this has been a consistent problem.

I think, during the SARS crisis, the alternative media outlets have gained relative reputation. Particularly, you begin to see the crack in this wall there. You see some of the internal media, for example, the Caijing, which is a business magazine based in Beijing, where some very brave editors and reporters began to take different view.

And you also see the health workers, at the bottom, they began to approach different sources, the news outlets like foreign reporters. That's very important.

And I would also say the international organizations such as WHO could play potentially a very, important role. We probably could not have gotten any substantial data on Guangdong in early

stage of the crisis, had there not been the WHO's insistence that its personnel go to Guangdong.

I think right now the external elements, the pressure was rather scattered, unorganized. If somehow, some international force, some organization could coordinate those assets to create some kind of check and balance system with the Chinese Government.

I might say also, we can just pressure the Chinese Government to basically open up its news reporting system. You got the data, you tell the public. You know, institute some kind of a system like the White House press office, like the State Department, or even like the U.S. Senate.

So that's my hope. But once again, I don't know where these guys are going to go. There are some very scattered alternative pressure points outside of the internal reporting system. And also, there might be some "deep throats" inside Chinese Government.

Vice Chairman D'AMATO. Yes, so outside pressure is critical?

Dr. YU. Absolutely, yes.

Vice Chairman D'AMATO. And more so, and coordinated so.

Dr. YU. Yes.

Vice Chairman D'AMATO. And that leads me to this question in terms of the availability of the Internet to the average Chinese, beyond the blocking technologies that the government has put in place. There has been some discussion of a number of technologies. Within the last year, how much progress have we made in being able to break through the firewall with impunity, and will we be able to continue that? What numbers are we talking about, Mr. Xia and also Mr. Zhang? How many people are we getting to through the Internet firewall now?

Mr. XIA. For e-mails it's the level of millions. For the web access it's the level of tens of thousands.

Vice Chairman D'AMATO. Tens of thousands?

Mr. XIA. Yes, daily.

Vice Chairman D'AMATO. Daily?

Mr. XIA. And there is some study that probably people in China tend to like to visit the Internet every few days, one time in a few days, so this may be potentially reaching maybe a half million people, something like that.

Mr. ZHANG. I did not finish, you know, giving my speech, you know, the technology part that was prepared in my statement. The IT company that I help work with has just developed the new technology that is in place for 10 months, and so far with the limited resource, the service has reached over 30,000, with over 12 million daily hits with this technology, and the cumulative number of users within this amount is over 600,000 with a cumulative number of hits of 880 million. And the access to the overseas web sites has been especially increased recently because of the high demand for the news and information regarding SARS from the foreign press, and we expect that this trend will continue to grow.

And also this high tech company has also developed the technology that could survive all kinds of virus attacks, including the DDNS, which is dynamic domain name service blocking, and the IP, which is Internet protocol, hijacking, and DOS, which is a denial of service attacking, and so on and so forth. So what we need right

now is a substantial financial resource to fund this project so that the capability will be enlarged.

Regarding, I just want to add a quick point, you know, to your earlier question to Professor Yu. The censorship, the bottom line on the censorship and the manipulation of information to me lies in the core of a controlled mind.

Because when I was working in the Chinese Government, in the foreign service, we were given, each person, a People's Daily and China Daily every day, to read it. And over years, you know, you have to repeat the propaganda every day, you know, on a daily basis, and then you are kind of brainwashed to that extent.

So that is very important, to develop the outside source of information from the United States and other, you know, the government and private sector. Thank you.

Vice Chairman D'AMATO. Thank you.

Chairman ROBINSON. Commissioner Reinsch, followed by Commissioner Mulloy and Commissioner Becker.

Commissioner REINSCH. Thank you. I would like to pursue a couple of threads that have been lurking out here.

On the question of outside pressure, without taking anything away from that, I want to pursue the question of internal public opinion for a minute. I think June made a useful point. The SARS case in particular is a little bit different from other situations. You can be walking down the street, somebody sneezes and, you know, suddenly you're sick, or at least that was the public perception.

It seems to me there is a high potential here for public panic. If the disease is not controlled, you can have all kinds of things happen. And is it your view—any of you, but I imagine Professor Yu in particular will want to comment on this—is it your view that internal Chinese public opinion is irrelevant?

Dr. YU. I think it is relevant as long as—

Commissioner REINSCH. Irrelevant or relevant?

Dr. YU. Relevant. Relevant because the government's obsession is of course stability, and we can see recently, just last week, when they sensed any potential, any potential news item that might lead to some kind of public outrage or demonstration or anything, they're going to take swift action.

For example, two weeks ago there was a report about the college woman students turning into prostitutes in Wuhan City. And the reporter from the Youth Daily did a lot of interviews and talked to a lot of people. His calculation was about 10 percent of the woman college students in Wuhan became prostitutes because they wanted to finance their education, and for some other reasons.

And this was a very well-done piece, but then the editor and the reporter were fired immediately, because the time of the publication is very close to June 4th. And the students, of course, reacted very violently and said this is ridiculous. You know, "We are not being treated very well by the news organization," so the government took a very, strong action on that. So public opinion, yes, make a lot of difference.

However, I think the government in a fundamental way, doesn't regard the ordinary, normal public opinion as relevant. And then there is also very difficult way to calculate what exactly is popular opinion, so I think there are some difficulties there.

Commissioner REINSCH. All of the panels and all of the discussion really, I think, has been revolving around the constant tension between the demands of a modern, integrated system, of which China seems to want to be a part, for transparency, free flow of information, and ultimately democracy, and I suppose on the other hand the historic institutional paranoia of the regime for all the reasons that you cited. An episode like this comes along, which has a whole bunch of public health consequences and external consequences, that creates crisis.

I guess what I'm wondering about, and Mr. Xiao has already answered this, but perhaps others of you could as well, is that this is undoubtedly going to recur, this same kind of episode. It may not be a public health crisis. It will be a natural disaster, it will be some kind of economic recession, something will happen, and we'll go through all this again and again and again.

Have they learned anything? I mean, there seems to have been some thought from some of the panelists and people we met with earlier today, that however badly they started off, later they've done a little bit better, both at dealing with the problem and in providing information about it, for whatever reason. And leaving aside why they got better—maybe you don't agree they got better, and you may think that they still aren't very good, but there seems to have been some progress—have they learned anything? Or is this just going to keep on being repeated?

Mr. ZHANG. I think for any long term impact the SARS crisis will have on transparency and media control in China, it's kind of difficult to assess at this point. I mean, given the CCP's track record over the years, my sense is that making China into a more transparent and open society would appear like, you know, asking a tiger to turn into a vegetarian. A totalitarian regime, without media control, wouldn't be much of a dictatorship regime.

Commissioner REINSCH. No, but at the end of the day, do they really have a choice?

Mr. ZHANG. But again, you know, like Professor Yu and Qiang Xiao said, with external pressure, consistent external pressure, and the economic activities, the trade, if the foreign pressure is there, things might move towards, you know, a better direction.

Commissioner REINSCH. Mr. Xiao?

Mr. XIAO. If I can add something, actually I was amazed at the former discussion about the French Revolution, the satire and that, because I watch the Internet very closely, the on-line discourse and all the discussions. It seems like under the strict censorship there's all kind of behaviors, Internet users.

I mean, in large it is a society to react, and one is certainly acceptance. To go with the government line, that's the best way to survive. Then another way to do it is this satire, humor, or ridicule the government official lines, but that is to me, rather, instead of saying it's before the revolution, that's just a way to adapt. That's another way to sort of cope with the situation.

And there's a third and a fourth way. The fourth way is simply protest, but that's a very high price the individuals will have to pay. The third way, which we should pay attention and now I want to focus, is more like a reformist attitude. They're trying to do things within the regime, but trying to do things better.

We should look into Chinese journalism, the journalists, the media, this time. They are more and more commercialized and more and more professionalism in the Chinese media. As soon as they found out this, when the SMS sending around, when there's rumors go around, they react. They report it. It's the official, the government censors them. And then when the April 20th, when they gave them a mandate to report again, they did a very good job to cover the issues.

So there is, and I think society as a whole, especially the media, they are learning a lesson: More transparency is important for those kind of social crisis. But I don't know whether the leadership, that really learned one lesson on which way to go, but we should encourage those kind of reform effort, including the Chinese media, sort of more professionalized media, by facilitating the information, free flow of information through the Internet, to giving them some support to transform the Chinese society.

Dr. YU. Let me add to what Mr. Qiang Xiao and Mr. Zhang said. Again, I share their sentiment that, you know, maybe the government has learned very little on some of the things. I do think, though, whether they have learned anything specific is yet to be seen.

One faction seems to say, well, the best way to prevent social stampede of unrest is to tell them the truth. This seems to be the reasoning behind the April 20th about-face.

But then recently, in recent weeks we see that others in the party said maybe the best way to handle the crisis is not be more open, rather, just be more controlling. We arrest all those Internet opinion-makers and we send those Matt Drudges of Chinese Internet to jail. In fact they just sent four people to jail, 8 to 10 years respectively, last week.

So I think, it seems to be still struggling within high command, as to what exactly is best way. I'm afraid to say, it seems to me right now that the more controlling group is winning.

This group is now saying the Chinese Government's reaction since April 20th was some kind of overreaction. "It's unnecessary. It's too much. We should really, really be limited in terms of openness in that regard."

Commissioner REINSCH. Yes. Well, it would be hard to disagree with that. The tension between those competing forces is going to continue. I'm inclined to agree that I'm not sure if anybody has learned anything from this, but the one thing that's guaranteed is, they are going to get another chance to go through the same struggle again, and then we will see.

Personally, I think there is only one way this can come out over the long term, but they will perceive this as a matter ultimately of their survival, and that's going to make it very difficult for them to go down the path that you all are suggesting.

Thank you, Mr. Chairman.

Chairman ROBINSON. Commissioner Mulloy?

Commissioner MULLOY. Yes, I wanted to pursue the same issue the Ambassador pursued before, and that is the outside pressure. You mentioned the four people who were recently prosecuted and put into jail. My own impression, watching this now for a couple of years and reading these clips we get every week, of all the

events that are going on in China, and you learn a lot by reading those clips.

When you read the clips, you see they had some investment conferences and contract conferences in China, and nobody was showing up, and it was really damaging the regime. Textile importers in New York were sourcing their materials from other places because of worries about the SARS virus.

So there was outside pressure, and it was economic pressure, in my view, and particularly because, as we tried to sketch out in our first report, the ideology doesn't have a lot of hold on the people anymore, so the regime stays in power by delivering economic goods, and this SARS can really threaten their ability to do that. And that's why I saw the outside pressure was economic in that SARS interferes with the regime's ability to deliver the goods.

Professor Yu, I really enjoyed your book, "The OSS in China."

Dr. YU. I'm glad you read it.

Commissioner MULLOY. Because what it reveals, it gets you into the history of some of the differences, why different parts of the U.S. Government and academia view China in different ways. You know, it really laid out some good roots on all that.

But in your testimony today you say the regime is now in the stage of being ridiculed.

Dr. YU. Yes.

Commissioner MULLOY. And, you say that's the stage when things are ripe for change. And then you say in the last page of your prepared testimony: "Once people realize their daily situation is not only bad but ridiculous, they may take action to facilitate the demise of the ancient regime."

Now, what does that mean? I mean, is it in our interest to see this regime collapse? Or do you mean changes that will change it gradually, or what do you have in mind when you talk like that? And what should we be encouraging in China? I would be interested in your view on that, as well.

Dr. YU. I'm not advocating one way or another. I'm just describing what's going on, as a detached historian, if you really believe detachment at all in these days.

I would say this. Having come from China, one of the most devastating consequences of the communist rule is that many people in China think of the world, major issues in life, in a very similar way. Does that mean that they really think that way? Well, nobody knows.

And I think that's very important because gradually you have this surge of popular culture, you have this diversion, diversification of opinions. You see individual spirit begins to emerge.

And I think the SARS crisis created an impetus for the society to pause for a while and think about some of the major Party lines. When Jiang Zemin showed up to sing his Italian opera, people think, "This guy looks ridiculous," despite the Party line praising his alleged artistic talent.

And I think, there is a gradual emergence of the opposition, mental and spiritual opposition, between the people versus the government. And when I see that, I see the hope for society to change.

Now, what form that change would take, it's really hard to say. I would say hopefully it will be peaceful, but it's hard to say in

China, because the lessons the government has learned from various situations, from Tiananmen massacre onward until now, is that you really have to be draconian, to hold onto it, to send more people to jail. It's controlling. Otherwise, the whole thing will erupt, and I'm not sure that's the wise way. I think that there are more and more people inside the government, the people with so-called second kind of loyalty are beginning to realize it. If you read Wang Shaoguang, Hu Angang, those guys all have this kind of idea that what the government is doing—those people are very pro-government, by the way—they say what the government is doing, is kind of silly. They're not wise. If we're to preserve the regime, there's a better way to do it. At least you have to appear enlightened.

And I think that's my answer. It's long-winded, but you know, I'm a historian. I'm used to this kind of topic.

Commissioner MULLOY. If you other panelists could comment on that, as well.

Mr. XIAO. Yes. You know, I've been a human rights activist since Tiananmen, and I'm still an exile. So in my heart I want to go back home tomorrow, and if that requires a revolution, you know, it's a benefit to me.

But not because now I have a university title, I have become academia; it's because I think it's more realistic and a responsible way to advocate change in China is incremental, and I'm not advocating a revolutionary path. Actually I'm advocating an evolutionary path.

But the issue in China is this, and SARS has illuminated that. It's not that the society is not ready for more transparent media. It's not that the idea of freedom of information, freedom of expression is such a dangerous thing that Chinese people cannot afford or Chinese society right now cannot afford. It's the opposite.

Look at this crisis. We need those kind of free flow of information to make the society function, to make the society stable. It is a certain mind set, and it is the old inertia, the old system that cannot allow to do it. So what we watch here is the old media, the old guards and the new forces, these dynamics.

What we should do is to sort of push the balance of those dynamics into the more open, transparent direction, and I think in many ways that the young generation of Chinese Internet users and the Chinese media, more and more professionalized Chinese media, and also the reform-minded officials, are on the side of this more open society.

What the foreign policy, U.S. foreign policy, can do through technology and through the bilateral political and economic leverage, is to encourage this kind of a force, whether it's directly supporting the anti-censorship technology, which would facilitate the information within China, or by the bilateral diplomatic engagement, to encourage the Chinese leadership to be more open-minded.

Let me conclude this. Once this balance is shifted, we can see the new leadership, even for their own survival, has to adopt the more open change, like this time when Hu Jintao probably had a political fight with Jiang Zemin, but in order to set out his mandate into his own power, he has to say, "More open on SARS is the right thing to do." And that give him that base, and overall that's a good thing.

Commissioner MULLOY. Thank you both very much.

Chairman ROBINSON. Commissioner Becker?

Commissioner BECKER. I'm not implying that any of you have suggested this, but it brings to mind the question of making the Communist Party leaders successful, ensuring their survival, and doing enough to where everybody is pacified. I'm not arguing one way or the other, but I've heard this debated so many times, and some of the things that we're talking about touch on that.

I want to make a comment, though, that was referred to just a second ago, on one of the reasons why the communist leaders opened up was based on economics. I think it was in Time magazine, that article, and a couple of others at the same time alluded the absolute economic collapse of everything they had on the books, everything they were planning over a few short weeks.

It cost them somewhere in the neighborhood of \$2 billion, trade shows that had already booked reservations for over 400,000 people, and only 2,500 showed up. The car shows were an absolute disaster for General Motors and for Ford. This was really the stimulus to get them to move. I don't know whether that's true or not, but I think one of you had mentioned something about that. This was the feeling that I came away with.

I do have a serious question, though. I think, Zhang, you had mentioned the fact that it's commonly known, that the firewall was created by companies from outside China. I've heard that before, and we had testimony in the last session of the Commission that touched on that.

Do we know who those companies are? Are there some outstanding companies, some good examples? Are there people that we can refer to, companies that we can refer to in the United States or in the U.K. whenever? Can we get that kind of information? I'm assuming if it's well known, then we can put our finger on which companies were doing that.

Second, should we be fighting that on an entrepreneurial basis, from small entrepreneurs that are developing technologies to try to crack that firewall, or should we be instead going back to those same companies? Should we be developing a policy in the United States to require these major companies to fix what they've caused?

Mr. XIAO. Well, let's say, let me start this way. As you mentioned, stability is so top a priority in the Chinese Government mind, that while they introduce Internet into China, they call information security has been always very, very high priority in their entire policy. Matter of fact, the only thing I can compare with the United States is anti-terrorism sort of budget, is to have an infinite budget, government, to make sure that part, that element of Internet development being covered.

What it has created is sort of competitive market for the private companies who closely work with Chinese Government to develop the technology and bid for that big, fat pie, and develop the multi-layer technology, not only on the national level but a provincial level and now then a city and country level, that information surveillance and filtering all over the place. And the SARS case shows that mechanism still very effective.

What's the U.S. Internet high tech firms play this role? At least two. One is, their technology helped to shape this whole, the fire-

wall system. Secondly is, many of them when they go into China, trying to have a piece of the largest Internet market in the world, they self-regulate themselves, they self-censor themselves, they participate in the self-censorship.

One case is Yahoo, who is a leading high tech firm here that signed up this self-regulation of Internet in last year, August, together with other Chinese Internet providers. What government trying to do is not only just by arresting, not just only by regulation and the law. They hold those Internet providers, the private publishers, web site managers, the intermediaries, responsible, and through them to control and create a self-censorship regime, and that works very well.

So from U.S. Government point of view, I think you should encourage both. One is to encourage the U.S. entrepreneurs that holding on their principle of freedom of information, especially for the Internet firms, and they should not provide secretive technology with China.

Because when the government has building up this information security contracts, they are not directly contracting the U.S. firms. They created the intermediaries who are, many of them are actually American Chinese, who are like mainland Chinese like myself who came over here, studied here, worked here in Silicon Valley, got the technology, and now they're establishing firms in China. They sort of work on both sides to transfer this technology and trigger them into the China's need.

But another is to support the entrepreneurs here to develop the anti-censorship technology, because right now compared with Chinese Government resource, its anti-censorship technology is not technically impossible. It's just resource is not enough.

Mr. ZHANG. I would echo what Qiang Xiao just mentioned because I mentioned those in my statement, and he also, you know, mentions a certain part of it. I would like to just add, you know, a few more points.

One is, while the U.S. and the overseas efforts to get information to China are being consistently blocked, but we are seeing the Chinese propaganda machine is here, coming to America on a daily basis, the Chinese CCTV, and also the Chinese Government-backed newspaper. So the relationship, the reciprocal relationship is not fair, you know, because on one hand we cannot get our information to China. At the same time, they have the freedom to express themselves and doing their propaganda here on the U.S. soil.

The second point is, I think that the Communist Party's mandate is to stay in power, so the party has been a compulsory liar for the past 50 years, no matter what kind of hat they wear, reformer or non-reformer. So, in order to stay in power, they will do anything, resort to any means to maintain that kind of stability and stay in power. So that's why I strongly support what Xiao just said, and I think we need to do something about this reciprocal relationship to make it fair and equal.

Dr. YU. Can I just add a bit? There is just one different thread related to your opening statement, and that is whether it was economic pressure that forced Chinese Government to open up. I would also add another dimension. That is political and diplomatic pressure.

If you look at the chronology, what really scared the Government of China a lot is when the U.S. State Department authorized all its diplomatic personnel to leave China. And, as a matter of fact, the Ambassador to China actually agreed to that, so for a while the 390-strong staff members in the U.S. Embassy and Consulates in China were just about to pack to go.

And at this moment the Chinese Foreign Ministry basically panicked. They went to the American Ambassador, said, "This doesn't look good at all. This is terrible. We beg you to reverse your decision." And the Ambassador, of course, gave the Chinese Government a sop and he did reverse the order, so eventually everybody had to stay, and that actually created a lot of internal strife within the American diplomatic compound in Beijing.

But once again, and I think in this negotiation the Chinese Government realized it's not just economic pressure, also it's political, diplomatic, and that really is enormous. You know, this never has happened since Tiananmen, i.e. the entire embassy staff might be gone.

But the implication of that is that the United States and the West overall has enormous leverage, both on economic and political, diplomatic ground, to force some kind of change. I'm not saying this is the best way to do it, but what I'm saying, there is leverage and that leverage has to be used.

Chairman ROBINSON. It makes me wonder whether, if the positions had been reversed and we went on bended knee to the Chinese Ambassador to Washington with a similar request, whether they would have been as accommodating toward us.

That said, Commissioner Dreyer has a follow-up, and then we're going to end this panel by turning to Vice Chairman D'Amato. Thank you.

Commissioner DREYER. For Mr. Xia, and also for Mr. Xiao, you mentioned text messaging, and as you say, you can only put in a very short message and you have no way of validating its authenticity, but then again you probably have no way of validating the authenticity of something you get off the web either.

Is there any way that you know of that this can be monitored by the Chinese Government? And I would add that even though the text messages have to be very short, I noticed on the basis of what is happening in Japan—and this is not subversive, it's teenagers sending messages to each other—they have developed little codes so that you can actually say a great deal with one or two kanji. And presumably the Chinese population could do something of the same.

Mr. XIA. For the SMS, it actually has been featured for quite a while, and I think it was in my written statement, shortly after April 20th, "feidian," the Chinese word for SARS, is filtered through both SMS and also e-mail. And there are also cases that some people got arrested for spreading rumors through SMS, so it is monitored and filtered.

Commissioner DREYER. Would some kind of code enable you to get around that?

Mr. XIA. For that it's going to be harder than e-mails, and for e-mail there are so many variations you can do. You can change

your text to an image, which is going to be impossible to filter. You can do lots of tricks. But for SMS there is much less you can do.

Commissioner DREYER. Much less you can do, yes.

Mr. XIAO. Yes, the short messaging service is monitored, filtered. Actually they installed a system that within 15 minutes they could track down any message, who sent it, and by that they actually caught a number of what they call rumor spreaders.

However, the short messaging service, the advantage is, anybody can be a writer and send it and forward it in a very fast way. But it's not alternative information source in a more substantial way, because if you have—let's put it this way—if you have open cyber space, those facts like SARS situation can be easily checked by other readers and quickly, because of the transparency, what's the truth will emerge, which is exactly the case in Taiwan and Hong Kong on cyber space during the SARS situation. Which hospital has five doctors being affected? And someone says no, it's six. Right.

But in China, because the cyber space is censored, this would only become rumors, that people don't feel free to participate, to post, to argue, and those debates couldn't really develop. That's why it become a rumor space rather than a real transparent information space. That's exactly what's the problem of the censorship on cyber space.

The final thing is, a lot of information leaks back in China after Washington Post, Voice of America, and all this international response, translated into Chinese, through e-mail and gradually, sort of become a catalyst of this change of public opinion.

Commissioner DREYER. Thank you.

Chairman ROBINSON. Vice Chairman D'Amato, and then we're going to wrap up this panel.

Vice Chairman D'AMATO. Thank you very much. I want to pursue this Internet firewall issue a little more.

If we think about what we as a Congressional advisory body should be recommending to policy-makers in the United States, what they can do that can make a difference, I want to ask whether you agree that broadening the opportunities for ordinary Chinese to access the Internet through the use of technologies that are already being used is important. I'm making the assumption that the technologies that are being used are successful enough that the question is not so much technological anymore, but the extent of available resources.

So if that's the case, then it begs the question, "How much resources can you put to that task to accomplish access by ordinary Chinese to the technology at a certain level where it really starts to make a difference?"

What level of access could be accomplished over the next, two years, in terms of using far greater resources with the technology that's now available. At what threshold, in terms of the number of users, do you think it really starts to make a difference in China, in terms of the regime's ability really to control the flow of information assuredly, and breaking that assurance by just the sheer volume of access?

Mr. XIA. That's very interesting questions. Previously there have been some, a few successful cases when public opinion can change

government behavior, like the Jiangxi Elementary School explosion case. There was a discussion on line, and then the Chinese Prime Minister had to reverse what he said.

So I'm looking for when we can reach a critical mass where we can facilitate certain discussion about an issue like SARS, and then that could be the next stage we can be looking at. And also it depends on what kind of topic you can discuss. If it's just a little school and some explosion story, that's probably something easier to get started.

For this kind of level, for a topic become, really to stimulate some hot discussion, like you can—you need maybe hundreds of thousands of people to actively post a message. That's enough to generate these kind of dynamics. And right now we are having people at level of ten thousands, so it's a matter of how many people will, what kind of cases will stimulate these kinds of dynamics.

Vice Chairman D'AMATO. So you're saying hundreds of thousands?

Mr. XIA. Yes.

Vice Chairman D'AMATO. Would you agree that if you had a million users, that that would make a threshold difference, a critical mass difference?

Mr. XIA. That will be my guess, yes, one million.

Vice Chairman D'AMATO. Mr. Zhang, how about you?

Mr. ZHANG. I agree with Bill, and also I think we have already the available technology, anti-censorship technology to do that, and we just need additional funding to the R&D and also to expand the user base.

And we also, from the earlier testimony, we know that we have over 50 million Chinese web users, and that is quite a powerful—it's a growing number, with the technology available and with the increasing web users in China, then there's a greater possibility of getting the information to China.

The third thing that I would think that, like Professor Yu said, under WTO the United States can request to have the fair, reciprocal flow of information relationship with China. You know, if China want to have their free press here in the United States, then the United States should have equal press and freedom of press in China, and that could be done through the clause of the WTO.

Vice Chairman D'AMATO. Well, I'm making the assumption that they will never agree to that, that we have to force the issue through this technology that we've already got. But thank you very much. Thank you, Mr. Chairman.

Chairman ROBINSON. Well, that concludes what has been a riveting, enlightening panel discussion, and I and my fellow Commissioners are very grateful to all four of you. And we're going to want to keep up with you on these developments, because we're in one of the most exciting and dynamic fields of possibility, and it is evolving, and we certainly are going to want to keep apprised of progress, so to speak, on all of these fronts. So you can expect to have an ongoing dialogue with us, if you're willing.

And with that I'd like to take just a 5-minute break as we change panels and rearrange. And again, please go with our gratitude, and thanks.

[Recess.]

**Panel III: SARS and Its Economic Implications**

Chairman ROBINSON. If we can start to reconvene for our final panel, Panel III of the day, we want to ensure that we have adequate time for a full discussion.

Okay, thank you very much. Our last panel today will consider, in light of the weaknesses of China's public health infrastructure, the short term and potential long term impact on China's economy as a result of the SARS outbreak, and some implications for the U.S. and the Pacific region more broadly.

On this round we will hear, in order, from Dr. Yuanli Liu, Assistant Professor of International Health at Harvard University School of Public Health; Mr. Andy Rothman, a China strategist with CLSA, based in Shanghai; and Mr. Dong Tao, Chief Economist for non-Japan Asia with Credit Suisse First Boston in Hong Kong. And I'd like to begin with Dr. Liu.

**STATEMENT OF YUANLI LIU, ASSISTANT PROFESSOR OF INTERNATIONAL HEALTH, HARVARD SCHOOL OF PUBLIC HEALTH**

Dr. LIU. Mr. Chairman and distinguished Commissioners, as some of you may know, the Chinese expression of the word "crisis" actually has two characters. One represents "danger" and the other, "opportunity." A lot of problems and dire consequences have been said about SARS. What I would like to do now is to share briefly with you how the SARS crisis should be and can be turned into opportunities.

The development of the SARS epidemic and public health reactions in China can be divided roughly into three phases: local crisis, national crisis, and the national emergency responses. From late 2002 and early April this year, SARS was made to believe that it is only a local problem, mainly concentrated in the southern city of Guangzhou.

By mid-April, with rapidly increasing number of new cases in the capital city of Beijing, it became apparent to the top leadership in China that some dramatic measures had to be taken to contain the epidemic before it is too late. Sacking the Beijing Mayor and Health Minister further fueled the public perception that there had been an earlier cover-up by the government officials. Despite government orders to stay put, thousands and thousands of panicked urban residents, especially migrant workers, jammed Beijing railway stations to flee town.

In late April a national anti-SARS command center was established. Thus began the phase of national emergency responses. Madam Vice Premier Wu Yi has been acting as commander in chief and the new Minister of Health. Combating SARS has become the number one priority for the party and the government in China.

China has adopted three major strategies in combating SARS, which have proven to be effective. First, concentrating SARS patients in a few designated hospitals. As you know, hospitals are at the center of SARS epidemic, both in their role as provider of health services and in terms of the high toll SARS has taken on the doctors and nurses.

Most of Chinese hospitals do not have adequately equipped isolation rooms and stringent infection control measures. Therefore, consolidating SARS patients in the hospitals with brand new

equipment or much-improved facilities can help on one hand reduce the intra-hospital infection, and on the other hand help improve quality of care.

The second strategy is to mobilize a mass campaign to identify the at-risk people for quarantine. The third strategy is to activate a SARS emergency reporting and communication system, where any cover-up has been severely punished by the new law.

There are reasons to think that China might succeed in controlling the epidemic. Unlike many other transitional countries, China still has formidable capacity to mobilize its population and its government infrastructure to carry out politically mandated campaigns and programs.

One of the strategies used to move local inertia is to make success in dealing with SARS a criterion for local officials' career survival. Moreover, in their competition for business investment, especially foreign investments, local government officials have strong incentive to do everything they can to prevent and control the SARS epidemic, so that their city or county can be shown to be safe to the outside world.

China's national emergency responses to SARS crisis have been massive and begun to show some success. During the first week of May, the daily average cases, new cases, were 166. This week the daily number of reported new cases has dropped to an average less than 2. This progress demonstrates the critical importance of high level political commitment and forceful implementation of control measures that have proven their effectiveness.

But the challenge ahead should not be underestimated. The resurgence of cases in Toronto serves as a humbling reminder of how difficult it can be to maintain control over a new disease with its epidemiological and clinical features still remaining unknown.

SARS is already having a major economic, social, and psychological impact on the populations, but I'm not going to dwell on the economic impact assessment, an issue I'm sure will be addressed by my fellow panelists. What I would like to suggest to you is this: Despite the major challenges, however, several positive outcomes are likely to emerge out of the current crisis.

First, a much more strengthened public health emergency detection and response system will be developed. Just as September 11th has prompted strengthening of homeland security in the U.S., SARS has helped feature public health prominently, more than ever, on China's top policy agenda. Already, more than a billion dollars have been allocated to build China's national and regional centers for disease control and prevention. China will be better prepared the next time a new, highly infectious disease surfaces or SARS resurfaces.

Second, SARS crisis also revealed broader structural deficiencies with China's health system. A much decentralized and fragmented health system has proven to be vastly inadequate for rapid and coordinated response to public health emergencies. Commercial orientation of the health sector on the supply side, and lack of insurance coverage on the demand side, further exacerbate the problems of under-provision of public goods and lack of access to health care to more than 700 million rural populations. The current crisis,

however, helped heighten a sense of urgency to carry out health system reforms.

Third, SARS crisis also helped enhance the health awareness among the public. Demand for preventive medicine, personal hygiene, and health insurance seemed to have increased remarkably. Therefore, while consumption in certain areas is going down, health-related consumption may continue to go up, good news for the economy. Furthermore, enhanced personal investment in health, combined with improved access to health care as a result of expected health system reforms, would help produce a healthier contingent of work force, which in turn will contribute to bringing about higher productivity.

Last, but not the least, China will become a more responsible member of the global community. China's new leaders have learned the hard way that mishandling of public health information had dire consequences, both in terms of missed opportunities for epidemic control and in terms of suffered confidence and trust in the government. The new Chinese leadership clearly recognizes that accountability to its own citizens and citizens of other nations about epidemic outbreaks is a necessity of a globalized world.

So, in sum, I am quite optimistic about China's future beyond SARS. But China cannot do it alone. To build a new public health system and a more transparent, accountable governance structure, a large and diverse country like China would need a lot of financial and technical assistance from the U.S. and other powerful members of the international community. Helping China is helping U.S. and the rest of the world, because infectious diseases do not respect national borders, as the SARS epidemic has painfully shown.

Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF YUANLI LIU

##### *Introduction*

As the epicenter of severe acute respiratory syndrome (SARS), China's ability to combat the crisis is bound to have global implications. The good news is that the daily number of reported new probable cases of SARS in China has declined considerably in recent weeks. During the first week of May, the daily average cases were 166. Over the past 6 days, the daily number of reported new cases has dropped to an average of 2.5. In my testimony, I like to brief the Commission on some major public health responses to the SARS crisis in China, and share with you my assessment of the likely impact on health system and overall economic situations that SARS may have in the longer run.

##### *China's responses to SARS*

The development of SARS epidemic and public health reactions in China can be divided into three phases: 1. Local crisis, 2. National crisis, 3. National emergency responses. From late 2002 and early April 2003, SARS was perceived by many (or made to believe) to be a local problem, mainly concentrated in the southern city of Guangzhou.

By mid-April, with rapid increasing number of new cases in the capital city of Beijing, it became apparent to the top leadership in China that some dramatic measures have to be taken to contain the epidemic before it is too late. Sacking the Beijing mayor and Health Minister further fueled the public perception that there had been an earlier cover-up by the government officials. Rumors about the seriousness of the disease and distrust in the government created widespread panic. While people in big cities were asked to stay put to reduce the risk of further infection in other provinces and vast rural areas, thousands and thousands of panicked residents, especially the migrant workers, disregarded that advice and jammed the railway stations to flee town.

In late April 2003, a national command center was established, thus began the phase of national emergency responses. Madame Wu Yi, deputy Premier, has been acting as the chief commander and Health Minister. Billions of dollars have been allocated to control the crisis. Combating SARS has become the number one priority for the Party and the government. The whole country has been mobilized, including the military medical corps, to participate in the campaign.

China has adopted three major strategies in combating SARS, which have proven to be effective. First, concentrating SARS patients in a few designated hospitals. Hospitals are at the center of the SARS epidemic, both in their role as provider of health services and in terms of the high toll SARS has taken on doctors and nurses (more than 50% of the cases are estimated to be infected within the hospitals). Most of China's hospitals do not have adequately equipped isolation rooms with negative pressure etc. Stringent infection-control measures are also lacking. Therefore, consolidating SARS patients in the newly built up hospitals or hospitals with much improved facilities can help reduce intra-hospital infection as well as improve quality of care.

The second strategy is to mobilize a mass campaign to identify the people at risk, who were either exposed to SARS patients or experienced SARS-like symptoms, for in-house or institutionalized quarantine. The third strategy is to activate a SARS emergency reporting and communication system, where any cover-up and belated reporting is being severely punished by "law," which was recently passed by the State Council.

There are reasons to think that China can succeed in controlling the epidemic. Unlike many other transitional countries, China still has a formidable capacity to mobilize its population and its government infrastructure to carry out politically mandated campaigns and programs. One of the strategies used to move the local bureaucracies is to make success in dealing with SARS a criterion for local officials' career survival. Moreover, ever since the fiscal system decentralization reforms in the 1980s, local governments have been responsible for generating revenues for local spending. In their competition for business and investment, especially foreign investments, local governments have strong incentive to do everything their can to prevent and control the SARS epidemic, so that they can demonstrate to the world that their city or county is a SARS-free place.

#### *The longer-term impact of SARS*

China's national emergency responses to SARS crisis have been massive and begun to show some success, as indicated by the significant decline of number of reported new cases in recent days. This progress demonstrates the critical importance of high-level political commitment and enforcement of control measures that have proven their effectiveness. But the challenge ahead should not be underestimated. SARS is already having a major economic, social, and psychological impact on the populations. Some of the impacts are already visible, including the worst hit service industries (e.g. tourism, business travel, and retail sales) and closure of hospitals and schools. Other impacts such as possible stoppage of basic public services, crisis of confidence, and human resource implications (e.g. how many people will leave the health care profession) are likely to be felt over time, depending on the duration of the epidemic.

Experiences elsewhere indicate the need for maintaining a vigilant and cautious approach to SARS, particularly in a country as large and diverse as China. The resurgence of cases in Toronto serves as a vivid reminder of how difficult it can be to maintain control over a new disease with its epidemiological and clinical features still remaining unknown. Nobody can be sure whether recent decline of the number of reported new cases masks some SARS cases that went undetected in China's vast rural areas, where the infrastructure for diagnosis, disease surveillance, and infection-control is lacking.

However, several positive outcomes are likely to emerge out of the current crisis:

First, a much more strengthened public health emergency detection and response system will be developed. Never before has public health received such high profile in the country. Current and continued effort by the government to combat SARS will help correct the trend of under investment in public health infrastructure. Already, more than a billion dollars have been allocated to build up China's national and regional Centers for Disease Prevention and Control. China will be better prepared the next time a new highly infectious disease surfaces—or SARS resurfaces.

Second, SARS crisis also revealed broader structural deficiencies with China's health system. A much decentralized and fragmented health system has proven to be ill suited for a rapid and coordinated response to public health emergencies. Commercial orientation of the health sector on the supply-side and lack of health insurance coverage on the demand-side further exacerbate the problems of under-provi-

sion of public goods such as health surveillance and preventive care. For the past 25 years, the Chinese government has kept economic development at the top of the policy agenda, at the expense of relative neglect of public health, especially access to health care for the 700 million rural populations. The current crisis helps heighten a sense of urgency to carry out health system reforms.

Third, SARS crisis also helped arouse the health-consciousness among the public. Demand for preventive medicine and personal hygiene seemed to have increased remarkably. It is also reported that demand for health insurance increased significantly since the inception of SARS epidemic. Therefore, consumption in certain areas may go down, while health-related consumption may go up, which may be good news for the economy. Furthermore, enhanced personal investment in health, combined with improved access to health care as a result of expected health system reforms, would help produce a healthier contingent of work force, which in turn would help generate higher productivity.

Last, but not the least, China will become a more responsible member of the global community. Infectious diseases do not respect national borders, as the SARS epidemic has painfully shown. China's new leaders have learned the hard way that hiding of information (even temporarily) that the public had a right to know had dire consequences both in terms of missed opportunities to more effectively control spread of the deadly diseases and in terms of suffered confidence and trust in the government. The Chinese leadership clearly recognizes that accountability to its own citizens and citizens of the world about epidemic outbreaks is a necessity in a globalized world.

Chairman ROBINSON. Thank you very much.

I would like to turn to Mr. Rothman, please.

**STATEMENT OF ANDY ROTHMAN, COUNTRY HEAD & CHINA STRATEGIST, CLSA, EMERGING MARKETS**

Mr. ROTHMAN. Thank you, Mr. Chairman. Thank you for inviting me to appear before the Commission today. By way of introduction, I have closely followed events in China for 20 years, initially as a Foreign Service officer, and I'm now the country head and China strategist for CLSA Emerging Markets, an investment bank that specializes in Asia Pacific markets. CLSA has just opened the first joint venture brokerage firm in the mainland, under the WTO commitments that China made a couple of years ago.

I would like to comment on the short-term economic impact of SARS and then discuss the longer-term implications for political stability, transparency, and the investment climate.

I do not expect SARS to have a significant impact on China's economic growth this year. The disease is new and, as Dr. Liu has just described, difficult to control, and SARS has yet to be fully contained in China. This does make it quite difficult to forecast its economic impact. But with the number of new cases on the mainland in steady decline, we have grounds for optimism.

I am particularly encouraged by the experience in Guangdong Province, where the disease began last November and where the number of new cases peaked in mid-February. The World Health Organization lifted its travel advisory for Guangdong on May 23rd. So this offers us a longer time frame to assess the impact than we have in the rest of the country, where SARS only became an issue when the government admitted its cover-up on the 20th of April.

Guangdong appears to have come through the epidemic without suffering serious economic problems. For the first four months of the year, the province's exports rose 28 percent, and they reported GDP growth of almost 13 percent. We have spoken with a number of multinationals operating in Guangdong, and none have reported serious difficulties due to SARS. DuPont, for example, has three

factories in the province, and reported no disruptions to their business.

Now, Guangdong is home to a large share of the mainland manufacturing base, and last year accounted for 37 percent of all Chinese exports, so the experience there is, I think, directly relevant to the rest of the country. We are also optimistic because few manufacturing companies across China have reported SARS-related problems.

Many companies that outsource consumer goods from China also say that they have found ways to work around the travel restrictions that have come from the epidemic. Wal-Mart, for example, which spends about \$12 billion a year in China, is using video conferencing and e-mail as alternatives to traveling to Asia, and they say they do not expect to reduce their buying in China this year.

Clearly, a large number of investments by foreign firms will be delayed, but I am not aware of any major projects that have been cancelled due to SARS. And I think it's also important to note that SARS has been concentrated in just a few parts of China. Three-quarters of all cases have been in Guangdong and Beijing, and life there began returning to normal about six weeks after the news of the cover-up led many Chinese to stay off the streets.

There are, however, sectors which have suffered serious losses due to SARS, and I don't want to downplay the impact on those businesses. China's airlines, hotels and other travel-related businesses have been hit hard. Meat and animal feed prices fell sharply as people avoided restaurants, and many small businesses in Beijing will find it difficult to recover from a steep drop in business during the peak of the epidemic.

But within the context of China's \$1.2 trillion economy, these will be manageable losses, particularly given the strong national growth reported so far this year. GDP rose by 9.9 percent officially in the first quarter, and in the first four months of the year electricity demand, which is a good proxy for economic growth, was up 16 percent. Tax revenues were up 26 percent through April. China's exports to the U.S. rose by 34 percent, and to the EU by 42 percent. China's imports were also up strongly, increasing 47 percent in the first four months of the year. Foreign direct investment in China was up over 50 percent.

I would now like to turn to the longer-term impact of SARS. I believe that once the disease is contained there will be a silver lining to the medical cloud: increased political stability, government transparency, and regulatory consistency, which will reduce the country risk for investing in China.

For most experienced investors in China, the government's cover-up of the SARS epidemic was not surprising. The lack of transparency and penchant for hiding problems, from non-performing loans in the banking system to HIV cases in the countryside, was well known and had raised the country risk for PRC companies.

The government's April 20 apology and reversal of the cover-up, however, was surprising. The Chinese public had never before seen its leaders acknowledge errors of this magnitude. Government has yet to apologize, for example, for the estimated 10 to 30 million deaths from famine caused by the Great Leap Forward policies of the late 1950s.

The SARS cover-up certainly contributed to the spread of the disease, and magnified the human and economic losses. Now, this may not sound like a story that will result in a lower country risk, but I think it is in fact the colossal scale of Beijing's blunder that will create the silver lining, because I think China's leaders are learning from their mistake.

The reversal of the cover-up provided Party Chief and President Hu Jintao and Premier Wen Jiabao with an opportunity to step out from the shadow of former leader Jiang Zemin. Hu and Wen responded with what were, by Chinese political standards, bold and risky steps. They increased government transparency and emphasized the rule of law, while at the same time they consolidated their power. It's now clear that Hu and Wen are in charge of the government and the party.

Hu came into office promoting the rule of law, and he also argued that the Communist Party was not above the law. The lessons learned from the cover-up, where the leadership ignored its own 1989 epidemic control law, should have convinced him that the continued absence of the rule of law would, over the coming years, weaken public support for his government.

And China's new leaders understand that their legitimacy is no longer based on blind ideological support by the masses. Rather, the leadership's ability to govern depends on their continuing to deliver social stability and a higher standard of living.

In violating their own law and hiding the truth about SARS, the government generated economic and health losses and panic that put its legitimacy at risk. Now, having taken steps to make the government more transparent on SARS, from regular press conferences to lifting the media ban to firing officials who lied, there is no option for the leadership to reverse course.

And technology makes it increasingly difficult to keep the truth from the public. Beijing can still muzzle the domestic media, but it cannot control what the country's 60 million registered Internet users can find on line, including Chinese language news from Hong Kong, Taiwan, and the United States.

And once outside information reaches the mainland, there is an army of 220 million mobile phone users who have proven to be a very effective and uncontrollable distribution network. There was an early report in February of the SARS outbreak. The message read, "There is a fatal flu in Guangzhou." This was sent out as an SMS short text message via mobile phone, and then retransmitted 160 million times over three days, according to a newspaper in Guangdong.

And globalization has also been an important factor promoting transparency. I believe the Communist Party has bet its future on a strategy for economic growth driven by the private sector and foreign trade and investment, and this has resulted in a staggeringly rapid and successful integration of the PRC into the world economy.

For example, in 1985 foreign direct investment into China was worth only \$2 billion. Last year it was \$53 billion. Exports of foreign invested firms accounted for 1 percent of all Chinese exports in 1985. Now it's more than 50 percent. Over the last 25 years,

China's trade has grown by 35 times, while total world trade has grown five times.

While globalization delivered exceptionally strong economic growth, it also made it increasingly important for China to maintain positive relationships with its major trading partners and key international organizations. Continuing to cover up the SARS outbreak after it had been exposed by the Western media, or refusing to allow on-the-ground investigations by the WHO, would have damaged trade and investment flows, which would have jeopardized China's economic future and the leadership's prospects for staying in power. I think the unprecedented decision in early May to publicly acknowledge a submarine accident that killed 70 sailors demonstrated that Hu Jintao has learned this lesson.

And let me close with a comment on the question that many people have raised: Will SARS be China's Chernobyl? And of course this refers to the radical changes that Gorbachev made after his 1986 cover-up was exposed, changes which contributed to the breakup of the Soviet Union five years later.

The aftermath of the SARS cover-up in China will not, I believe, be that dramatic. China will change, but the PRC will not break up and the Communist Party is likely to still be in power in five years.

There are three key distinguishing factors between Chernobyl and SARS. First, the Soviet Union in the mid-1980s was an economic disaster, which raised the level of social discontent and made radical political change appear more attractive. When SARS hit China, by contrast, it was one of the world's strongest economies.

Second, Gorbachev came into power with an agenda for sweeping political reform, and his mishandling of Chernobyl led him to broaden that agenda. Hu Jintao and Wen Jiabao, however, took over China with a focus on stability, not radical change.

And, finally, the Chinese leadership has the benefit of learning from the Soviet example. They have undoubtedly concluded that while a little press freedom was a good thing, unfettered journalism would be hazardous to their regime.

And finally let me say that it's already clear that the leadership does not intend to embark on a path of radical political reform. We've seen this with the sentences handed down last month to two labor leaders convicted of subversion for organizing a series of protests by laid-off workers seeking unpaid wages. They got prison terms of four and seven years. In mid-May, the government blocked transmission of a CNN report critical of their handling of SARS.

So, while the lessons learned from the SARS crisis will lead Hu and Wen to make significant changes that will raise transparency and accelerate China's move towards a country governed by the rule of law, there will not, I believe, be the dramatic change or political turmoil witnessed in the late 1980's in the Soviet Union.

Thank you.

Chairman ROBINSON. Thank you very much, Mr. Rothman.  
Mr. Tao?

**STATEMENT OF DONG TAO, PH.D., CHIEF, REGIONAL ECONOMIST FOR  
NON-JAPAN ASIA, CREDIT SUISSE FIRST BOSTON**

Mr. TAO. Thank you, Mr. Chairman. I'm going to focus on three things. First is the SARS impact to the Chinese economy in the short term. Our conclusion there is, it is a V shape to the Chinese economy. We see very sharp fall, followed by very robust rebound, which has already started.

Secondly, the SARS impact to the Chinese economy in the long term, our view is it's going to be quite limited, as FDI largely would not be affected by this.

And the third point is, how is SARS affecting the rest of the region? Our view is, we are seeing that the whole of Asia being affected by that. In the meantime, we do think that this is going to promote significant self-protection in the future.

Now, six weeks after Beijing dismissed the two senior officials and moved from denial to much more aggressive tackling on SARS, I think the economic impacts on the Chinese economy has also become clear. The first point I want to mention is, consumptions saw a drastic fall in May: air traffic, passenger traffic, down by 80 percent, and train traffic down by 60 percent during the Labor Day holiday, which is the single busiest season outside of the Chinese New Year.

The retail sector has seen significant of impact. For Beijing that's retail sales down by 70 percent, and for the other cities like Shanghai, Wuhan, Chongqing, down by 30 percent. By all means that is private consumption being significantly affected by the SARS disease, as consumers shy away from crowds.

However, since the middle of May we see a significant rebound of consumer confidence. Consumers can only stay at home and watch DVD for so many weekends. Beyond that point, people get back to their normal lifestyle. As a consequence, we do see a significant and very visible rebound in consumer confidence, followed by retail sales.

Second, from the export point of view, we estimate that about 10 to 15 percent of the export orders in May lost due to SARS because people can no longer travel. And while the majority of the orders can still be handled through fax machines and conference calls, there are many cases that you need to bring the design to the factories, and also make a tour of factories.

We do see anecdotal evidence that textile orders from Europe being taken by Turkey and other orders by India, Mexico, and other Southeast Asian countries. This is a significant part, which would start to surface in the third quarter trade figures. However, if the SARS situation can be managed as it has been so far, we do think that this is going to be a relatively easy loss, about one to two months.

The third thing is FDI. There is a very strong fear that foreign direct investment may stay away from China because of SARS. We surveyed about 40 international, multinational companies. All of them suggest that they have no plan to change their China strategy, which is encouraging.

We do think that in the next 12 to 18 months there will be two kinds of investors may shy away from the Chinese market. The first is the newcomers who have never been in China, have little

knowledge about China, depend upon the Wall Street Journal and Economist magazine. These are people easily being influenced by sentiment.

The second group of people being influenced is those who have extremely heavy exposure to China. For example, Motorola's hand-phone, 60 percent of them are made in China. If we do see a production interruption, this is going to lead to a significant problem to Motorola's operation. And Wal-Mart sources \$12 billion to China. If we do see a transportation interruption, this will be affected. So even if the newcomers or someone that is significantly exposed to China must look for production diversification, the majority of them, in my opinion, is not going to be affected by SARS.

The fourth thing is the fiscal stimulus. They are going to come back. The new Chinese Government, as it decides to move away from the fiscal stimulus, we have seen some signs of slowing down in fiscal spending. But with the SARS and the drastic fall of the economic growth, we do anticipate they get back to the normal Keynesian approach and spend at least 50 billion RMB in the second half of this year.

By all means the short-term consequence to the Chinese economy is big. We project 5 percent year-on-year growth in the second quarter. This does not sound very low by U.S. standards, but given that the first quarter China's GDP was 9.9 percent, this represents a significant slowdown. However, beyond the second quarter we do think that, given the current development of SARS outbreak and control, we think that SARS is largely a second quarter phenomenon.

It is probably premature to claim victory over the SARS outbreak in China, but to bring the virus under control, i.e., no longer just appearing on the headline news every day, seems a reasonable assumption now. Even more important, I think the consumers' confidence seems to have been recovered quite significantly after the initial shock.

In my view there are three different curves. The first is the medical curve, the SARS outbreak, which I'm not a medical expert and I'm going to leave this one off.

The second curve is the economic curve. We start with the very sharp fall of consumption. Following that we are going to see delayed impact on the export side in FDI. The biggest loss is consumption, and for that part I believe the worst is already over.

The third one is most interesting, called sentiment curve. Now, to when the SARS outbreak originally started, we see everybody trying to shy away from the crowds, and now people are psychologically better prepared. Even we do see SARS comes to China again in the fall, as somebody predicted that, I think that consumer sentiment toward that will not see as drastic change as we saw in the first round.

And certainly the investor sentiment, which is also good indicator, seems pointed to that direction. The Chinese shares in Hong Kong-listed companies have recovered to pre-SARS level. Again, the market is trying to look beyond SARS.

In terms of long-term impact, the key thing is still FDI. Maybe a few people sentimentally will be affected by SARS, but China's long-term fundamentals remain very solid. China's cost base is low

and it will remain low. China's domestic market is large and will remain large. It would be mistake for the multinationals to move out of China because of SARS, because five years down the road they will feel sorry about that.

And, secondly, I think that the fiscal balance and fiscal discipline will be one of the complications caused by SARS. Currently China's debt is about 33 percent of the GDP, and if we include the non-performing loans in the banking system, it's roughly about 70 to 80 percent. It is high but not devastating.

It is about time for the Chinese Government to look back to its fiscal balance and start to control that. Given that the government moved back to a fiscal stimulus, we do feel that this is one of the long-term problems; that if the government does not stop fiscal stimulus in the next two-three years, we do think that the fiscal balance will become one of the problems.

Finally, the leadership issue. SARS does represent an unprecedented challenge to the new leadership led by President Hu and Premier Wen. We have seen the public regards the government radical and decisive response after April 20th was key factor that led to the quick containment of the disease. This does help to establish new leadership, and we do think that in the long term this is positive for China's political stability.

Let me at the end just try to make assessment on how the SARS affected rest of Asia. Hong Kong, Singapore, and Taiwan were the three economies, with the exception of China, outside of China, being badly affected by that. Again, retail sales are the key being affected by that.

The psychological path pretty much followed the Chinese one: initial shock, very drastic fall of retail sales, about six weeks later we see the confidence return. Korea arguably is the least affected country in East and Southeast Asia. Korea's damage largely comes from the reduced consumption from China, as China now becomes the biggest market for Korea's exports.

Another thing relevant to the SARS is the fear of production interruption. People do fear that if in China or Taiwan, anywhere, a factory being shut down because of SARS infection, this could break down the global supply chain and there could cause much bigger implication to the global market. So far we're not seeing that, but nevertheless this is a risk that potentially could happen in the future.

Third, for the Southeast Asia outside of Singapore, the main damage caused from SARS is the loss in the tourist receipts. For the Southeast Asian countries, Malaysian tourism accounts for 7.5 percent of Malaysia's GDP and 100 percent of its current account surplus last year. For Thailand, it's 6.1 percent of GDP and 101 percent of current account surplus. The sharp slowdown in the tourist flows undermines growth momentum there.

Another thing is, China becomes the major driver of Southeast Asia's exports. As China's domestic demand slows down, this is going to affect Southeast Asia's exports. We do see some orders flow to the Southeast Asian countries, but compared to China's demand, I think the Southeast Asia countries still are worse off.

The last thing is, there are some evidence that some of the FDI, especially the money from Japan originally planning going to

China are now heading to the Southeast Asian countries. We estimate that such a switch is in the magnitude of \$3 to \$4 billion U.S. dollars. Compared to China's \$52 billion of U.S. dollars, this is not enough to cause much problem to China, but this does represent a substantial amount for the rest of Asia. Thank you.

[The statement follows.]

PREPARED STATEMENT OF DONG TAO

Six weeks after Beijing dismissed two senior officials and moved from denial to aggressive measures to tackle the SARS outbreak, the number of daily new infections has fallen sharply (no infections were reported on June 2). There may be new setbacks in the battle against SARS and rural infection remains a worry, but signs of stabilisation have emerged. Meanwhile, we now have better clarity vis-a-vis potential economic losses.

1) Consumption fell more but also rebounded quicker than we first thought. Air travel slumped 80% yoy, while rail travel dropped 60% during the May Labour Day holidays—the busiest travel season outside of the Chinese New Year. We project nationwide spending fell by about 20% yoy due to reduced spending and travel cancellations, with Beijing plummeting 70% during that period. However, the consumer panic appears to have been short lived. By mid-May, sales had recovered by 90% in cities such as Shanghai, while a visible improvement in sentiment has been witnessed in Beijing as well. The consumer behaviour pattern so far is consistent with that seen in Hong Kong; thus, we expect consumers to more or less return to their normal lives in the coming weeks, barring a major set back in the control of SARS.

2) Exporters are estimated to have lost about 10–15% of orders due to SARS, but weak global demand is an even bigger threat, in our view. We have observed that some export orders were diverted to Turkey, India, Mexico and some Southeast Asian countries, as travel restrictions and fear of production interruption undermined buyers' confidence—these factors should show up in Q3 trade statistics. Still, if SARS is contained by the end of Q2, China will not miss the other two major order seasons of the year—July and September. Besides SARS, weak global demand is also unsettling. Export growth is still expected to slip from 33.4% yoy in the first four months of this year to single digits in Q3. Production interruption does not seem to have been a major hindrance so far.

3) FDI will be affected, but China's fundamentals should stay mostly intact. We have spoken with some managers of major joint ventures in China, all of whom said that the epidemic would not affect their long-term strategies in China. Still, two types of investors may hold back their investment—new comers who are easily affected by the western press coverage of SARS and those with very high exposure in China who need to diversify risk. Further, travel restrictions will delay the bulk of FDI into next year. We see a US\$3bn loss in FDI this year and US\$4.6bn next year, compared to the US\$52bn figure recorded in China in 2002.

4) Fiscal stimulus to kick in H2. The government has set aside RMB8bn for disease prevention and offered tax breaks to badly hit industries, but also refrained from diluting its focus away from the SARS battle by not concentrating on stimulus measures too early. We think the size of the stimulus could reach RMB50bn or more through SARS bonds in H2. RMB50bn would represent 0.5% of GDP (the current fiscal deficit GDP ratio stands at 6%).

By all means, the repercussions from SARS to the Chinese economy are enormous, and we project 5% yoy growth for Q2. 5% growth would be considered high by US standards, but it is almost half the 9.9% growth recorded in Q1. What is clearer to us now is that most of the shock to domestic consumption is likely to be a Q2 phenomenon. We have lowered our 2003 growth forecast from 8% yoy before the SARS outbreak to 6.9%, but think that other (worse) scenarios now look unlikely to happen.

It is probably premature to claim victory over the SARS outbreak in China, but bringing the virus under control (i.e., it no longer appears in headline news) by the end of Q2 looks increasingly more realistic. More importantly, consumer confidence seems to be recovering quickly after the initial shock. There are three connected but to some extent separate curves linked to SARS: the medical curve, the economic curve and the sentiment curve. The medical curve relates to the infection and outbreak and shows some signs of stability, but the risk of a relapse after the summer must not be ruled out. But this issue is beyond my knowledge. The economic curve refers to the impacts on consumption, investment, trade and FDI. We think consumption dips first, but also recovers first. Trade will see a delayed effect in Q3, while the impact on FDI may show up even later. Our reading is that while the

adverse repercussions on trade and FDI will occur later, most of the economic damages will be contained in Q2 through consumption. The third curve is the sentiment curve, which relates to consumer confidence and investor confidence. Consumer confidence deteriorated sharply but is now back on track to recovery. A repeat of the consumer panic seen in late April and early May is unlikely even if another outbreak does occur after the summer. Spending will resume as long as SARS does not dominate the headline news on a daily basis, even if there continues to be new cases in rural areas. The same can be said for equity investment sentiment, as buying opportunities remain the main objective, despite new infections. Share prices of most Hong Kong listed Chinese stocks have moved back to their pre-SARS levels.

The SARS outbreak could have the following long-term implications:

1) FDI diversification: In term of competitiveness, China's virtually dominates the manufacturing products market. Its rapidly growing middle-income class and domestic market is also attractive to foreign capital. SARS will not deter this money away. However, companies such as Motorola, which produces 60% of its mobile phones in China, or Wal-Mart, which outsources more than US\$10bn from China annually, may consider diversifying their production. Still, a balance must be drawn between diversification and maintaining a competitive edge. China's low cost base remains one of its key advantages. We expect FDI flows to return to normal levels within a 2–3 years timeframe.

2) Fiscal imbalance: China underwent expansionary fiscal policy in 1998. Its public debt GDP ratio stands at 33%. According to S&P estimates, the ratio would surge to 70–80% if contingent liabilities from banking NPLs were included. The Wen administration seemed prepared to slow this burgeoning deficit before the SARS outbreak, but fiscal stimulus now looks very likely to play a major role in China's growth in H2. An additional few years of deficit spending would not represent a serious problem to China, as long as a) local liquidity remains high and b) the economy sustains its robust growth. Nonetheless, a reversal of fiscal policy does deteriorate China's fiscal outlook in the medium term. The majority of spending is likely to be in infrastructure works rather than public health.

3) Establishment of the new leadership: SARS represents an unprecedented challenge to the new leadership led by President Hu Jintao and Premier Wen Jiabao. We think the public regards the government's radical and decisive response after April 20 was the key factor that led to the quick containment of the epidemic. This will help to establish the new leadership in Beijing. On the other hand, other countries and the WHO seem to have mixed feelings about China's response to SARS—which ranged from government denials amid a lack of transparency in the early stages of the outbreak to the draconian efforts and improved transparency to tackle the disease head-on. The mobilisation of neighbourhood cells, widely used to rally the public in the Mao era, but considered defunct as China moved towards a market economy, was critical in the government's efforts to control movement of the population (estimated at at least 5 million on daily basis) quickly and effectively.

Implications to the rest of Asia: The SARS outbreak has been largely brought under control throughout Asia, though China and Taiwan (and Toronto) are still on the WHO's travel advisory list. I would like to make the following assessment:

1) Hong Kong, Singapore and Taiwan were the three economies, with the exception of China, to be badly affected by the outbreak. Retail sales saw a catastrophic collapse in the early stages of outbreak, but consumers gradually returned to their normal lives after the initial pandemic fears subsided, a pattern similar to what is now being seen in China.

2) Korea is arguably the least affected country in East and Southeast Asia under our coverage. It could be negatively impacted by a sharp fall in China, which has replaced the US as Korea's top export market. For both Korea and Taiwan, production interruption in China is a cause of concern, as it is an integral part of the global supply chain for many joint ventures there. Some provincial governments on the mainland have set up contingency plans to quarantine the whole factory if one worker on the floor is infected. So far, production interruption has been very limited.

3) For Southeast Asia outside of Singapore, the main damaging effect from SARS is from lost tourist receipts. Tourist receipts accounted for 7.5% of Malaysia's GDP and 100% of its current account surplus last year. They represent 6.1% of Thailand's GDP and 101% of its current account surplus. The sharp slowdown in tourist flows undermines growth momentum.

4) China has become one of Asia's main export drivers, so any slowdown in its export orders would be likely to cause a decline in intermediate good exports from Asia ex. China. Further, China's robust domestic demand has been a huge part of Asia's export story over the last 12 months. In H2 2002, exports from the rest of

Asia to China grew at 23% yoy while Asia's exports to the rest of the world were up 17%.

5) A substitution effect exists between Chinese exports and the rest of Asia. Anecdotal evidence suggests some buying orders are being diversified away from China to the rest of Asia. Still, this hardly compensates for the lost orders from the mainland.

6) There is evidence that some FDI, especially from Japan, which was originally planned for China, is now heading to Southeast Asia. We estimate that the switch would amount to US\$3-4bn. Although this is not a large reduction by China's standard, it does represent a substantial amount to the rest of Asia.

### **Panel III: Discussion, Questions and Answers**

Chairman ROBINSON. Well, I thank all three of you, very much. And at this juncture we would like to go to Commissioners' questions. Commissioner ELLSWORTH?

Commissioner ELLSWORTH. Thank you, Mr. Chairman, and thank you, all three.

A lot of people who think about China and talk about China in this country are asking the question "Where is China going?" as if, and it probably is right, China is somehow at a turning point and is going somewhere. And so I would like to ask all three of you, where do you think China is going?

Dr. Liu, you indicated that you thought that China was going toward a strengthened public health service, and then the two financial gentlemen both sounded to me as if you think that China is going from strength to strength economically and industrially. But would you, in order, please, just very briefly address that question? Where do you think China is going? Dr. Liu?

Dr. LIU. Well, in the last half, in the last 50 years of last century, China basically experienced two development eras, if you will. The first is Chairman Mao era, is the era of egalitarian society. And the second era is the Deng Xiaoping era, is the economic liberalization.

Now, during the first era, one of the outstanding achievements in China is its health, public health, given its very low-income level. You know, China was able to achieve, by mobilizing the national political organizational resources, by launching a patriotic health campaign, by providing access to primary health care, immunization, wide coverage of insurance for the rural peasants, China was able to achieve very high achievement in public health by reducing the infant mortality rate, for example, from over 100 per 1,000 live births to only 36, 1949 to early 1980s.

Now, the second era, China, you know, really is one of the fastest economies in the world, but many experts believe that the health development in China really seriously lags behind its economic success. Economically, China was a success story, but in my opinion and the opinion of other China watchers, health really has a very dismal record.

Right now, 90 percent of the rural populations are uninsured, and medical expenditures in many cases has become a number one poverty generator. That's just one example of the problems with the current Chinese health system.

So hopefully the SARS crisis, you know, served as a wake-up call to the Chinese leadership that a society cannot be wealthier without being healthier, so the health investment, health system reforms, can be strengthened. So it's my hope, and I have reason to believe that it will develop in that direction. China will continue on

the path of economic growth, but at the same time use this SARS crisis and turn it into opportunities to improve its health.

Mr. ROTHMAN. Well, like Dr. Liu, I think it's useful to look back a little bit, to get a sense of where China has come over the last couple of decades, to see where they might be going. And if I look back just in the period of time that I have been traveling to China, starting in 1980, and compare life on the ground for people, it's quite a dramatic change.

For example, the private sector basically did not exist in 1980. Now it accounts for, I believe, more than half of GDP. It was impossible to own your own business. It was impossible to move from one town to another unless the government moved you. It was very difficult to go overseas to work or to study. It was almost impossible to get access to outside information about China or the rest of the world. None of these things are the case any more, to a large extent.

It is also worth noting how much China has become integrated into the world economy. I used a few statistics in my statement. A few others: Total trade with China was \$69 billion in 1985. Now it's over \$600 billion.

These forces, I think, have had a dramatic impact on the average person, particularly in urban China, where for example it was impossible to find green vegetables in the winter five or six years ago. Now, because farmers are allowed to grow whatever they want, put up greenhouses, and sell them in the market at market prices, this has changed consumers' lives and farmers' lives. Twenty years ago, almost all prices in China were set by the government. Now I would estimate that more than 95 percent of prices in China are set by the market.

So I think that what we have got is a process that is moving in great fits and starts, with tremendous difficulty, of moving towards a market-based society that I think will require a great deal more freedom of expression, personal freedom, if you will, for the average person in China.

And here you get down to an argument of whether you believe that there is a chicken-and-egg approach to economic development and its connection to political development. I happen to believe that it's going to be impossible for China to continue moving towards a market-based economy without further liberalization of individual rights for people, and that therefore we are going to see a continued process, a very slow one, of moving toward the rule of law. But that's the direction I see things going.

Commissioner ELLSWORTH. Can I just ask you a technical question? What's the percentage of under-performing or non-performing bank debt in China?

Commissioner DREYER. How many hours do you have?

Mr. ROTHMAN. The official number is about 24 percent for the big four state banks which dominate the system. Our estimate is that it's closer to 40 or 45 percent.

Mr. TAO. Let me start this a little differently, instead of just start to say where China is heading to. Let me say how China is going to change the world, what will be the major influence, and then I will come to that particular point, where China is heading to.

I think the surge of China is going to bring three major trends to the rest of world. The first one is, the unskilled labor market is going to be under tremendous pressure for quite a long time. China's rural sector has about 900 million of population, and 480 million of labor force. That means that agriculture sector can no longer hold all of these people. Estimated about 70 percent of these rural workers need to get into the market in the next 10-15 years. Each year this means that the world could see about 20 to 22 million of fresh labor coming into the market.

Commissioner ELLSWORTH. Unskilled.

Mr. TAO. Unskilled labor market, which would mean that unskilled labor market is going to have tremendous pressure in the next 10-15 years. At least you are not going to see the upside, possibly downside through exports. That's the first trend.

How big is this? If half of this unskilled labor get into markets, this alone will bring the world unskilled market tremendous pressure.

The second thing is huge market potential. Never buy the idea that China has 1.3 billion of market. China has a rural market and China has an urban market, but the urban market alone we're talking about 480 million of people. For the major cities, GDP per capita is already \$4,000 U.S. dollars. That's roughly equivalent to Korea of 1988, the Seoul Olympics, a time in Korea you already see lots of cars running around. These people's purchasing power is very much already matured. Okay? This 480 million population is roughly equivalent to population of U.S. and Europe together, and income level is growing at 10 percent a year.

How to tap into this market is the second big question. The world needs to find a way. The third one is outsourcing.

Commissioner ELLSWORTH. What?

Mr. TAO. Production outsourcing, which is a game that Americans invented about 10 years ago. But the rest of the world, particularly Japan, is now really following that. With the surge of China, with its manufacturing strength, I think the whole world is moving towards that direction. Okay?

Now, putting these three things together, what I want to say about it, 10 years from now China is going to be a manufacturing powerhouse. China is likely to be the leader of Southeast Asia, largely through production integration with the other part of Asia.

And the third part is, it's going to be market-friendly economy but not quite in the direction that the U.S. would like. Even Singapore is not exactly what the economic style is, not exactly as the U.S. would like. I would still call this very market-friendly, but I wouldn't think that it's completely U.S. economy.

Major hurdles, two hurdles. One you already mentioned. It is the financial sector. China has a two-tier economy with very, very strong manufacturing power but, on the other hand, the financial sector hasn't been really properly addressed yet, so the banking system there still represents a major risk.

The second risk is foreign direct investment. China's success has been largely built on foreign direct investment, so that you need to see continued FDI flows into there to sustain such a success.

Chairman ROBINSON. Thank you. Commissioner Wortzel?

Commissioner WORTZEL. Thank you, Mr. Chairman. Thank you all for your time and your testimony.

I have to say, Dr. Liu, that when I look at a government that did everything it could, in fact I look at a Communist Party, a single party, that did everything it could to hide the fact that there was a disease around, that lied not only to the rest of the world but to its own people that there was a disease around, and that intentionally let people die so that they could minimize the perceived economic effects on the nation, lest people not travel over the spring festival, or lest it affect the tourism season, or lest it affect the Communist Party conference, I just don't see this potential boon of transparency that you seem to predict as a result or a lesson out of the SARS crisis.

It seems to me that as long as that same Communist Party is continuing to hide non-performing loans, and is continuing to lie and let people die, unless they get caught, which is what happened this time. The disease spread, they got caught, they had to admit it—that's going to keep happening. I would like to hear your comments on that.

Now, you also suggested that China might need financial assistance to help not only its rural health care but its entire health care infrastructure. It seems to me that a country that's building up an extra 75 ballistic missiles a year against Taiwan, which doesn't present too much of a threat to China, and is building a new set of mobile intercontinental ballistic missiles and nuclear weapons with which it can threaten the United States, might divert some of that money to health care.

And why in the world would the United States, or any other Western country that would potentially be threatened by these new missiles and nuclear weapons and all the weapons purchased from Russia, want to spend money helping China's rural health care system, when there's plenty of money in China to do that if you spend it on things other than new missiles and weapons?

Mr. Rothman, I have a difficult time with this connection between economic freedom and political liberalization, you know, as Senator Kyl talked about this morning, and you can see his testimony. I work at a free market think tank. We support permanent, normal trade relations with China.

But the fact of the matter is, if you look at the Index of Economic Freedom, which the Heritage Foundation and the Wall Street Journal publish, the number one freest economy for the past few years has been Hong Kong. Not only is Hong Kong not politically free, if you listened to Martin Lee today, it's getting less free because of Article 23. And the number two freest economy in the world is Singapore, and I've lived there, and it's not exactly politically free.

So that I think it may be true that economic freedom allows people to make a number of decisions in their lives under less control from the government, still as long as you have a Ministry of State Security with guns at people's heads, and a People's Liberation Army with guns at people's heads, it doesn't necessarily translate into the political liberalization. I don't think there is—one may be necessary, but I don't think there is a direct connection. So I have some questions about that.

Mr. Tao, I was interested in your GDP/public debt ratio at 33 percent, and just a simple question, because the 45 or 46 percent of non-performing loans probably don't count as public debt, but it's money owed somebody, out-of-state banks, so it's some kind of debt. And the bonds that people were forced to buy in state-owned enterprises, that probably does count as public debt, but maybe not.

In any case, if you add up that money, which is money owed out of a banking system, then what would the debt-to-GDP ratio for China be, and would that alarm you more? Thank you.

Dr. LIU. Tough questions.

Chairman ROBINSON. You were all lucky enough to get one.

Dr. LIU. Yes. If I understand you correctly, you have two questions basically. The first one, you express basically some doubt about the possibility for the Chinese system to become more transparent, given the fundamentals remaining unchanged. And the second related to the question of whether assistance is necessary and what rationale or justification there.

Now, it's true, I think, there had been certain amount of cover-up, I think in certain cases the Chinese officials, either local or central, trying to avoid public panic by creating more panic, basically. But I saw their more fundamental problem with the health system.

That is, ever since the economic system reform in early '80s, the whole health system in China is not one. It's very fragmented. The Ministry of Health has become a very weak ministry. Each level of government is responsible for appointing the health directors, for a health budget, and meanwhile over 70 percent of the providers' income at all levels do not come from the government; they come from the revenues generated from providing service and selling drugs.

So because of the fragmentation and marketization, there being a very weakened vertical line of communication and control, if you examine the annual health statistics in China very carefully. One of my close friends happened to serve as the director of a health information center at the Ministry of Health. He often complained to me he couldn't get the data from the provinces. Even the national health statistics often have missing data from the regions.

So I wouldn't be surprised if the dismissed Health Minister really didn't know what's going on, and plus it's an entirely new disease. You've got to give him some benefit of doubt in terms of a steep learning curve. I'm not here to excuse him for anything, but I think we should understand there are tremendous amount of uncertainties surrounding any new public health challenges.

Now, do I believe that the public health system, the administration of public health system will become more transparent? Yes, absolutely. I think it's a no-no. You cannot hide information, even be late, any sensitive public outbreak, emergency outbreak information. It's really irresponsible. I think that it's a turning point.

But do I believe that the political system then will start to reform itself rapidly, become more transparent, and civil society will be built up overnight? No, I have doubt. But I think China is moving in the right direction. I see the opening up and becoming more transparent. The public health system probably serves as a crack of the overall authoritarian system still prevalent in China.

Now, does China need external assistance? I strongly believe so. China's economic growth is remarkable, but we shouldn't forget China is still a developing country. There are 100 million people in China still living under \$2 a day. Okay?

And there are, yes, coastal provinces with a lifestyle and a standard of living equivalent to OECD countries, but I would suggest more than 70 percent of the Chinese population still live on the borderline of subsistence. So China is a vast country, 1.3 billion, and Shanghai, Beijing may not need any assistance, but other provinces definitely do.

I would hope that any country could spend all the military money on health on welfare of the people, on education. But I'm not a military expert nor a finance expert to suggest what will be ideal percentage of GDP that should be spent on military establishment, for China or for the U.S. Okay?

So I think that's really something, a subject I think for people like you here in the Senate. You debate that all the time, I'm sure. There are two, you know, points on this issue.

But what I like to emphasize is the technical assistance United States can and should provide. For example, ever since the anthrax scare, 9/11, tremendous amount of effort have been put into building preparedness for bio-terrorist attack, and those experiences I think can benefit China a great deal in terms for example establishing an electronic disease surveillance system to make the whole reporting and communication system within the public health surveillance system more efficient. I think CDC has a tremendous amount of role to play in that.

And, furthermore, I thought—

Chairman ROBINSON. Excuse me. We'll have to move through the other two gentlemen, so if you could wrap up, and then we'll—

Dr. LIU. Okay. Yes, I think I will just end there, yes.

Chairman ROBINSON. Sorry for that.

Mr. Rothman, did you want to—I don't want to cut off the responses—

Commissioner DREYER. I have a question along the lines of Larry's questions.

Chairman ROBINSON. That's fine. Yes. I just wanted to make sure that Commissioner Wortzel's questions were given adequate treatment, but we're moving on to Commissioner Reinsch.

Commissioner REINSCH. Thank you. For Dr. Liu, do you think that the health process reform or improvements that you mentioned, that you see the SARS outbreak producing, is going to direct Chinese attention toward the AIDS problem? Do you see any progress there?

Dr. LIU. Yes. Short answer is yes.

Commissioner REINSCH. Okay. Moving on then to something different, Mr. Rothman, I largely agree with your testimony. I'm probably the only one here, but I just don't want you to feel lonely. All right?

Mr. ROTHMAN. Thank you.

Commissioner REINSCH. And you can defend yourself at an appropriate moment later, but I do have a question for you, and also for Mr. Tao if he wants to talk about it, too.

Mr. Tao, in particular, referred to China's future as a manufacturing powerhouse, which is something the Commission has addressed in the past. And I wonder if you can look to the future a little bit, both of you, on that point and what it means for the United States.

I think there has been little, relatively little, analysis here of what, let's assume for the moment the successful entry of an economy that size into the global trading system is going to mean for us particularly. And I don't mean it specifically in the sense of the bilateral balance but in terms of the impact on our manufacturing sector and jobs and displacement of American exports in other areas, as well as direct trade.

Would either of you like to comment on that, or both of you?

Mr. TAO. Okay. I think there is lots of talk about China exporting deflation, etcetera. Personally, I don't think so. I disagree with such a view.

I also want to say that China's influence will be very different, varies from country to country. To the U.S., China's manufacturing presence is largely disinflationary, but to Japan this might be deflationary. I'm going to elaborate on that.

The U.S., in the past 10 years, has drastically changed its industrial structure, not because of China but because of NAFTA. Lots of manufacture has now been moved to Mexico or somewhere else. Outsourcing becomes the game that the U.S. is playing.

So that what the Chinese are producing are not what the Americans are producing, largely. I do not rule out the possibility that there are still 200 people somewhere, in some of the remote states, producing T-shirts, etcetera, but largely what the U.S. is focusing on is not what the Chinese manufacturer is focusing on. So net to net, cheaper products from China is good news for U.S. consumers and good news for the U.S. to control its inflation. Okay? That's my general kind of assessment on how this is moving.

Now, why this outsourcing game is also good for the U.S. companies, a good sound example is Nike. Okay? Shoes are made in Dongguan, Guangdong Province. Each pair of footwear there, the manufacturer make \$5 U.S. When Nike put this one in the window, the price could be \$100, could be \$200. Outsourcing does not mean that all the money being made in China. Chinese make \$5. Usually the manufacturer's margin is very, very thin.

What the U.S. companies, they do the R&D, they design that, bring this to Chinese, give them 5 percent of whatever profit. The rest going to the U.S. company. It is, in my opinion, good news for the U.S. because they don't need to deploy so much of capital into that, yet they can get a higher return.

The downside of that story is really the labor market, but as I said, in the U.S., because the industrial structure has changed so much, it doesn't hurt the U.S., not much.

The story is different for Japan. In the past 10 years, whenever you hear the Japanese say "restructuring," that means shutting down overseas capacity, bringing jobs back home. With surge of China, I think this game will be very difficult. There's tremendous pressure on Japan's labor market, but not so much on the U.S. market.

Commissioner REINSCH. Mr. Rothman, do you want to comment, as well?

Mr. ROTHMAN. I agree in general with what he has had to say, and I would just add that I think the most important factor for us to look at with China growing as a manufacturing source is whether they are opening up their own market so that there's a level playing field, rather than worrying about the fact that an increasing percentage of our manufactured imports are coming from China as opposed to another place.

For example, I believe last year imports from China were about 10 percent, 11 percent of total U.S. imports, so the overall impact on price levels is relatively small. Globally, I think China accounts for about 5 percent of exports.

What is most important is whether they are complying with the terms of their WTO agreement, and providing a fair opportunity for U.S. companies to export into this market. And one of the things that has helped there is the level of foreign direct investment. As I mentioned earlier, about 52 percent of China's exports are produced by foreign invested firms, so I think that does indicate a significant level of improvement in that side of the equation.

And the other thing that I think that I've seen that has been beneficial from a political side is that U.S. firms in China have really had a significant impact on the way that state-owned enterprises and private firms operate. Firms like Motorola, for example, have been at the forefront of labor relations, training, promoting local employees from within.

And we have seen state-owned firms try to copy their model because they're losing employees to firms like that. And while this is a small part of the overall Chinese economy, I think it's a leading edge that is pushing some of the larger state firms to change the way they operate in a positive direction.

Mr. TAO. Could I just add one little bit there?

Commissioner REINSCH. Sure.

Mr. TAO. I think in terms of a trade imbalance between China and the U.S., we need to look at some other way instead of just focusing on the trade side. What's the strength of China? Making toys, shoes, shirts, maybe in the future computers. What's the strength of the U.S.? It's, instead of in the goods area, it's the service area. What the United States is good in exporting is Microsoft, Hollywood movies, Goldman Sachs. These are the areas. To make this a little bit broader sense probably would make it a better balance.

On top of that, I think we should also look at beyond the bilateral trade situation. While China is having a major surplus against U.S., China is buying a lot of things from countries like Australia, from Southeast Asian countries, and many of them running deficits. So at a multilateral level it probably would see that China's overall surplus much smaller.

Commissioner REINSCH. What was China's global surplus in '02? Do either of you recall?

Commissioner MULLOY. I think it was about \$24 billion, wasn't it?

Mr. TAO. Yes.

Commissioner MULLOY. Yes.

Commissioner REINSCH. All right.

Mr. TAO. And this is relatively big, but if you level out in the past decade or so, actually it's not that huge, because China in many years recording huge deficit there.

Commissioner REINSCH. No, not for the last 10 years, but fine. There are some very useful comments here, and I'm sure you're going to hear from Commissioner Becker on the labor issue, so I'll stop talking and turn it over to somebody else.

Chairman ROBINSON. I'd like to turn to Commissioner Dreyer, but first Commissioner Ellsworth just had a quick one, if that's all right.

Commissioner ELLSWORTH. Just to follow up on Commissioner Reinsch's question about looking at the future, let's say the next 10 years—on China's overall balance with the rest of the world, how do you see that being affected by China's sharply rising needs for, and willingness and readiness, to import energy from abroad?

Mr. TAO. I think China is very willing to do so. Okay? One thing that China is quite—there are two very—

Commissioner ELLSWORTH. Is that going to be an order of magnitude more than what it is now?

Mr. TAO. Much bigger.

Commissioner ELLSWORTH. Oh, two orders of magnitude, yes.

Mr. TAO. Let's put it this way: China, five years ago China was a net oil exporter. Today it's the sixth largest importer, and five years down the road it's going to be the second largest oil importer.

Commissioner ELLSWORTH. Thanks. Thank you, Mr. Chairman.

Chairman ROBINSON. Commissioner Dreyer?

Commissioner DREYER. This is for Dr. Liu. You presented a very sanguine view of what SARS is going to do for the Chinese health care system, and I've seen a different point of view and I'd like to quickly sketch it for you and ask for your reaction to it.

And I guess I would start out by saying that in the United States we have the assumption that when a law is passed, it will in general be obeyed, and I think it would be unwise to assume the same thing in China. And so laws that are passed by the central government do not necessarily get implemented.

There is this saying that "Heaven is high, and the Emperor is far away," and recently it looks to me like heaven is getting higher and the Emperor is getting farther away. You see a government that really, really wants to implement the one child policy but seems to be losing control of it in recent years.

And the government has said recently that peasants who are afflicted with SARS are supposed to be treated free of charge, and yet we hear report after report after report out of the peasants that in fact they're not being treated free of charge, they're being charged fees that they can't possibly meet. So that's another example that things are not so sanguine.

Furthermore, I would be wary of the idea that SARS is a wake-up call on the health system, because China has had other wake-up calls on the health system over the years. There has been a recurrence, for example, of schistosomiasis in several provinces, and you see that after lots and lots of stuff, oh, the province has allocated \$8 million. \$8 million is a drop in the bucket in terms of schistosomiasis.

There have been hepatitis outbreaks periodically that affect tourism badly, and the thing goes back to where it was. There have been polls of people over the last 15 years saying, "What is it that you most fear?" And it's not death and it's not famine, it's getting sick, because they can't afford to do anything about it.

An article, a very interesting article in *Asian Survey* in March of this year by—I think, if memory serves me right, his name is Guo Baogang. And he says that there is now this wonderful plan for urban health care, just urban health care insurance. And he says essentially it looks great on paper but there's no money to implement it, and he says point blank, nobody is doing nothing about the rural areas.

And of course if you did draw up a plan, there still would be no money to allocate it because whatever, I think it's 67 percent of the population lives in rural areas. We can quibble about that one, but it's a large amount.

And the other thing, of course, is the idea that local governments are supposed to bear the responsibility for implementing these plans, and here we come up against the great "C" word, "corruption." This is what we political scientists call a general decline in the extractive capacity of the state, meaning you can't get the local areas to do what the central government wants.

For this reason I'm, I guess, a little less optimistic than you are that this is what's going to change the system. I mean, do you have any response to that, or you just—I admit right up front, I'm a pessimist about lots of things, but do you maybe think the view you presented was maybe a little optimistic?

Dr. LIU. No, I totally agree with you. There are many roadblocks and problems, and all those just all the more make me to believe it's very urgent to carry out the reforms. If there are no problems, there's no need for reforms.

Now you are right in saying that the Emperor gets further away nowadays in a marketized, decentralized system. But on the other hand, I would argue the Emperor also knows better how to deal with this, I mean the subordinates, by using Internet, by using economic incentives.

So it's no more party instructions, but really link closely the performance of the local government officials to their economic incentive packages, career survivals. And I was told that the top leadership nowadays got their information not from the reports but from the Internet. They have their own informal channels of information, so that's a hopeful sign.

Now, yes, law enforcement is a big challenge. There are a lot of loopholes. That's why I have been emphasizing system reforms. You know, one-time charity, free treatment of SARS is not going to be sustainable if 90 percent of the rural population still remains uninsured.

So I see the big challenge and big service, big help we can provide to China, is to help China establish a sustainable public health surveillance system, so we know when the problem becomes serious; second, to build up a sustainable insurance system so people will have coverage that's guaranteed by a system, not by this or next administration's promise.

And I think in that regard, I think technical assistance, training of the policy analysts, policy debate, and training of the next generation of leaders, for example, and how to set up accountable and transparent insurance schemes, how to mobilize community participation, all of that, I think we have a lot to offer. That's why I think United States—

Commissioner DREYER. By "we" you mean the United States?

Dr. LIU. United States, exactly. I have been back and forth to China four times a year on average for the past seven years, but I have been on mostly DIFA missions, UNICEF missions. I've never been on a U.S. mission. And many other countries are there, and they're studying the situation and helping the country move into the right direction, and building up the system. I think there is a remarkable absence of the U.S. presence.

Commissioner DREYER. Thank you.

Chairman ROBINSON. Commissioner Mulloy?

Commissioner MULLOY. Yes. My questions are really for Mr. Rothman and Dr. Tao.

Mr. Rothman, you pointed out that we have a trade deficit, and that the way to deal with this is make sure that they adhere to their WTO obligations and that we try to export more there. My concern is, I think in the WTO the Chinese were thinking investment. That was a key goal for them to get into the WTO, to lock markets open and then get investment flows.

The problem with the WTO, it doesn't cover investment incentives. It only covers trade. It doesn't get into investment and incentives to get investment. Two, it doesn't deal with exchange rates.

Now, we've had a fall in the dollar against the Euro, which will in time help correct our trade deficit with Europe. We've had increasing trade deficits with Europe. And I think it has also had some impact on our trade deficit with Canada. It has fallen a bit against the Canadian dollar.

The Chinese, however, fix their currency against the dollar, so we've gotten no increase at all in terms of competitive advantage there. Both the investment flows into China and the trade flows from this country, I mean the fact we're running such a \$110 billion trade deficit last year, should have driven their currency up in value versus the dollar, but it hasn't happened because they fix it.

So this is one reason that's driving, I think, our trade problem, the currency issue. So do you agree with Dr. Tao, who is saying that, well, they're making T-shirts and shoes and we're making higher value added things, and therefore we don't need to worry, or have you paid attention to the fact that we're running a deficit with China in advanced technology products, not just T-shirts and shoes? They're moving up the food chain very rapidly, and the idea that this is just T-shirts and shoes is—I mean, you're just not looking, you're just not looking at what's going on here.

So I think that you can't come here and sell that story. You've got to give us a realistic assessment of what is going on here. You've got to pay attention to the exchange rate, and you've got to look at the incentives for currency flows.

Now, the head of the National Association of Manufacturers, Jerry Jasinowski, who is not some protectionist labor figure, here is what he said the other day.

Chairman ROBINSON. With all due respect to the other Commissioner over there.

Commissioner MULLOY. Here is what he said the other day. He said there are structural problems facing manufacturing with regard to China which are quite substantial, and he says, "We have been urging the administration to focus on this issue," and he talks about, he says it's impossible, because of China's artificially low currency values, subsidies, and counterfeiting. And he says that these are some of the things that are driving this trade problem with regard to China.

Do you think Jerry Jasinowski is crazy or do you think he's accurate when he's saying there's a lot going on here that people ought to pay a lot more attention to?

Mr. ROTHMAN. Well, I think, Commissioner, even though he doesn't represent organized labor, he's not crazy. I think he's raising some very, very good points.

And let me go back to one of the points you made. I do agree that China's exports are moving rapidly up the value added food chain. There's no question of that. I can't remember off the top of my head how the percentage has changed, but it's quite dramatic.

If you go back to about 1995 to last year, the percentage of exports out of the total export portfolio that's made up of machinery, electrical goods, and high technology goods grew quite fast. And last year and so far this year, the fastest growing part of China's export portfolio is machinery, electrical goods, and high technology equipment, somewhere I think in the 40 to 50 percent growth range, year on year.

Commissioner MULLOY. Yes.

Mr. ROTHMAN. So there's no question. Of course, a lot of these are being produced by foreign firms.

Commissioner MULLOY. Right.

Mr. ROTHMAN. More than half of Taiwan high technology goods, for example, are made on the mainland. A lot of production by U.S. firms is made on the mainland, being exported back, so that's a significant contribution to it.

I agree that subsidies are an important issue, and those are addressed in the WTO agreement.

Commissioner MULLOY. They're not very well addressed, because the subsidies agreement, of course that's now being looked at in terms of revising it to make it better because it hasn't really worked that well. They can get the red light subsidies, which are the export subsidies. It's difficult to get into the so-called amber and green light subsidies, which are a much more complicated area.

Mr. ROTHMAN. Well, there's two areas of optimism there, I think. One is that over the last couple of years, the share of China's exports being produced by private firms, which don't have preferential access to state-owned bank lending, has risen quite significantly, in large part due to the WTO agreement which required the Chinese to level the playing field, not only for foreign firms but for private firms. Almost no private firms had a license, for example, to export prior to WTO. Now, and just in Shanghai, I think they're adding a couple of hundred a day, so that will start to change. Also, the banks are coming under the pressure that we talked about be-

fore with the non-performing loans, making it a little bit harder each year to lend to SOEs on a subsidized basis.

On the exchange rate, that's a more complex question, and there has been a lot of debate about how much the RMB may be undervalued. Estimates are 15 to 40 percent. But I think it's also clear that American consumers have benefited for many years from less expensive imports from China. I think that's one of the reasons why we had such a long period of high growth and low inflation.

And I also think that it is going to become necessary for China to move to a more flexible exchange rate mechanism. Everybody has been encouraging them to do this, and the Chinese Government themselves have said that is their plan.

I don't think that the time is right for them to do so now. I think if we look back on the lessons learned from the Asian financial crisis, one of the clear lessons, in my mind at least, is that until a country has a supervisory, regulatory, and financial structure that is sophisticated enough and has enough teeth in terms of enforcement, opening up the capital flows to an unrestricted level can be a disaster.

And then you get to the question of, well, if we don't completely liberalize the capital flows and the exchange rate, do we just change the peg a little bit right now? And there you get into serious problems for China, because once you make one change, then the market starts anticipating the next change. And this would certainly, I think, be discouraging to a lot of the American firms that are doing business there now, that are in a sense counting on a consistent exchange rate.

Commissioner MULLOY. Investment?

Mr. ROTHMAN. Yes.

Commissioner MULLOY. Yes. See, the investment to make it there and ship it back here, obviously if they begin to move that exchange rate, that will help discourage that tendency, yes.

Did you have anything you wanted to add?

Mr. TAO. Largely, I agree, as a matter of fact, but I think that forcing China into a higher exchange rate at this moment, in my opinion could be counterproductive, in the sense that China has a very strong so-called two tier economic system. It has a mighty export sector with a quite fragile financial system.

Forcing China to move too quickly in the exchange rates and liberalizing the capital accounts, eventually could have a severe consequence to the banking system. Then the next thing you're going to see is capital outflow, etcetera. Maybe your intention is to push the RMB from current 8.27 maybe to 7. The consequence of that is, if we see the capital outflow, eventually it could end up 10, which is a lesson that we learned from the Asian financial crisis.

I do agree with you that purely from manufacturing sector, the Chinese RMB looks undervalued, and I think in the long term RMB should appreciate, but it is my personal view that in the short term holding the RMB at the current level may be a good thing for China to make a significant restructuring in the banking system. It is a necessary environment to do so.

Commissioner MULLOY. Thank you.

Chairman ROBINSON. Commissioner Becker?

Commissioner BECKER. Yes. Thank you, Mr. Chairman.

Mr. Rothman, I'm not going to get into, I don't want to get into a labor per se argument, nor do I want to get into the deficit. I think these have been covered very heavily.

I will go back to Commissioner Wortzel. When you put the missiles on the line for the money, be sure and keep the trade deficit out there. That's \$104 billion a year of just pure cash in a bushel basket, for them to spend however they want, and it's a matter of choices, isn't it? And that is an incredible amount of money any way that you look at it.

I have got here, I will say one thing on this thing, I have got an analysis here on the steel industry in the United States, by a person that I have debated many, many times, Peter Marcus, but he does a pretty good analysis of where the steel industry is going. And he says with bold print here, "It becomes hard to justify the construction of major products outside of China when the construction cost in China is so low. Much of the steel industry outside of China may be hollowed out in the next decade."

Now, he's not just talking about the United States. They've got 500 million tons of capacity that they expect to have on line within five years. It's going to go somewhere. And even Posco, which is the South Korean export mill, which is the most efficient mill in the world, can't match them by 40 percent. So, there is big trouble in the future.

I was intrigued with what you were saying about the frustration of workers being unable to move without government permission, and trying to become a part of a marketplace society. You closed by saying that this is impossible to achieve without further liberalization, but you didn't explain what that liberalization was.

I would like you to look in your crystal ball and tell us. What liberalization will it take for workers to become part of the marketplace society in China? Second, what role does foreign government play in this? Specifically, foreign ownership in these factories, I mean not just the United States but other countries that move in with foreign direct investment and build places for export. What can we expect out of them, or what would be required out of them to move this ball along?

I don't have to see a free trade union movement, but this is where I come down in the final analysis. It's going to take freedom of association for workers to participate at any meaningful level in society. How do you see that coming about?

Mr. ROTHMAN. I think we're obviously a long way away from having freedom of association in China, but what I tend to do is look back at the level of change that we've seen over the last 20 years, and try and envision where that will go over the next 20 years. And I think there the change has been moving slowly in the right direction, and I think this change, the pace of this change is going to accelerate, in large part stimulated by change required by the WTO, and in large part also stimulated by my belief that the Communist Party in China has bet its future on the private sector.

And that will make it much more difficult for them to continue the kind of labor organization restrictions that they have had in the past, because without labor mobility, it's very difficult to have a successful private sector.

We've already seen the beginnings of this, in that last year the Chinese Government largely eliminated the household registration system, the "hukou," which was really the last Stalinist-era method of population control that kept people in many cases in the village they were born in for the rest of their working career. That has been largely eliminated now, giving people the opportunity to move to most places in China if they can find a job.

Now, that doesn't mean they can create or join a labor union that's not organized by the Chinese Government. That hasn't happened yet, as you know. But I think that as the share of state-owned enterprise output in the economy continues to shrink, as the private sector continues to grow, as foreign invested firms continue to grow, the power of that union will continue to decline, and I think there will be greater impetus for more labor freedom.

Now, I'm not going to argue that in my lifetime this is going to generate full freedom of association like we have here, but I think we're moving slowly in that direction. And other than following along with economic liberalization and market-based reforms, I'm not sure what other form of stimulus would work.

Commissioner BECKER. Do you think government should have a role in that? Should our government, for example, insist on our employers having a code of conduct and certain rules and regulations that they follow, in an effort to encourage freedom of association?

Mr. ROTHMAN. I don't know enough about how that has worked around the world, and I would suggest that it would be best to use a code of conduct that was globally applicable rather than just focused on China, to have the maximum impact.

But I do know that, as I mentioned earlier, that the best practices of American firms have contributed a bit to changes in the way the workplace is managed in places like Beijing and Shanghai, because now that workers are more mobile, they understand what opportunities are available in different countries. And if your state-owned company is not going to allow you to go for training, is not going to give you a promotion based on your merit and performance, then you can leave and go work for an American firm where you'll get that opportunity.

Commissioner BECKER. Tell me again what you do. I don't have a printout of your bio.

Mr. ROTHMAN. I work for an investment bank which is based in Hong Kong and covers all of the Asia Pacific markets, and I'm the country head for China and, as the China strategist I write about the political and economic trends and how they affect corporate performance in China.

Commissioner BECKER. Would you support a code of conduct for United States firms operating in other countries, all countries?

Mr. ROTHMAN. I guess that would make sense, but I'm not sure about—I haven't thought about this enough, obviously—as to whether this would be something that I would want to see the American government impose upon the companies, or whether I would want to see this driven by the American marketplace, by the investors, the shareholders, and the workers in those firms.

Commissioner MULLOY. Could I ask just a follow-up on that?

Chairman ROBINSON. Yes.

Commissioner MULLOY. Mr. Rothman, you were in the Foreign Service in China for a number of years, right?

Mr. ROTHMAN. That's correct.

Commissioner MULLOY. Now, there's something called the Alien Tort Claims Act, Alien Foreign Tort Claims Act, in which employees of American companies in China, if they are mistreated, can actually sue the American corporation in the American courts. The National Foreign Trade Council is leading a drive to restrict use of that law.

Have any of you, has anybody thought that maybe in terms of giving the American companies immunity like that, then they should have a code of conduct, that that would be part and parcel of the trade-off? In other words, if you did have a code of conduct, then your company could be immune from that law.

Mr. ROTHMAN. I'm sorry, Commissioner, I'm not familiar with the law, so it would be difficult for me to comment on that specific case. My impression so far, from spending a lot of time with American companies working in China, both when I worked in the government and in my current position, is that most of the larger firms are very conscious about how they treat their workers.

And this has nothing to do with their relationship with the Chinese Government. I think it has everything to do with pressure brought to bear on them by their shareholders in the United States. And I think that for that reason, it has been my impression that many of these multinationals, American-based multinationals, have in fact played a very important role in setting best practice standards which are then being copied, for economic reasons, by some Chinese firms.

Now, I'm not trying to argue that we've seen a dramatic change in the work force and the workplace in China. We haven't. But it is a process that's moving, I think, slowly in the right direction.

Commissioner MULLOY. Thank you.

Commissioner BECKER. I respect your thoughts about not singling the United States out, separate from the rest of the world. But what if we went through the WTO? Would you feel comfortable with pressing the WTO for changes, at one of the ministerial meetings, in which freedom of association and the right to build a free trade union movement was a part of the Articles of the WTO? Do you feel that would be good?

Mr. ROTHMAN. I'm sorry, Commissioner. What I meant to say was that if the United States was going to have standards, that it would be best if they were imposed globally, not just on China.

Commissioner BECKER. Well, globally would be the WTO.

Mr. ROTHMAN. Well, that would be a separate case, if we were to try to bring labor standards into the WTO.

Commissioner BECKER. Do you think, from your experience in China, that would be a good provision?

Mr. ROTHMAN. Well, it raises a lot of questions that are outside the issue of China. I think that any—

Commissioner BECKER. That's another way of saying no?

Mr. ROTHMAN. Well, no. I think the impact could be positive in China, but what concerns me more is the possible negative impact it would have on the WTO as an organization and its ability to

drive change on a broad level, until we can develop an international consensus to include labor standards as part of the WTO.

And what I would not want to see is the entire effectiveness of the WTO brought down by a dramatic level because of a hold-up on that issue, when I think that there is a lot of change driven by the WTO which does in fact lead indirectly to improvements in the workplace.

Commissioner BECKER. Your broad experience in China makes you unique in knowing just how much that would mean, to have freedom of association among workers. You would not be opposed per se to having freedom of association for workers in China?

Mr. ROTHMAN. Of course not.

Commissioner BECKER. Okay.

Chairman ROBINSON. We're going to end this panel with just a question from Vice Chairman D'Amato.

Vice Chairman D'AMATO. Thank you very much, Mr. Chairman. I appreciate the indulgence of the panel. We were going to try and focus on the economic impact of SARS, but I think we did get into a couple of other related items.

But I do have a question specifically on this, and I'm not sure, I gather that basically the thrust of you all's testimony is that the SARS, at least if it doesn't recur in an epidemic form, is episodic and doesn't have a long-term impact. I think that's generally what you're saying.

But I do have a question as to the numbers that you were using, Mr. Tao, in your testimony. You have on page 2 that the current fiscal deficit/GDP ratio is at 6 percent. Six percent is pretty high, I think. Our estimates last year, when we got testimony, had the 2002 government deficit at about \$38 billion, which is about 3.1 percent. You would have it doubling.

Now, that 6 percent represents the entire size of the—even, I think, the large DOD estimates of the size of the defense budget, like \$60 billion. That's the deficit that you're suggesting—is that correct?

If that's a doubling, is that extra 3 percent a result of SARS—is that a SARS-related effect? How much would it be? Or would it be due to other factors?

Mr. TAO. Okay. I think with the fiscal deficit/GDP ratio, there are different standards. One thing is, in Chinese accounting, the fiscal accounting, the government counts the revenues raised from bond issuance, now part of the deficit. And that is the official deficit number, and for that it's close, somewhere around 3, between 3 and 3.5 percent.

We use the kind of global standards, that if the government issues a fiscal deficit, that will be counted part of the overall fiscal deficit, so that we are using a broader definition of fiscal deficit which just brings this ratio particularly high. In terms of health-related possible increase of spending, that's roughly about 0.5 percent of GDP.

Vice Chairman D'AMATO. 0.5 percent?

Mr. TAO. That's correct. \$5 billion would be equivalent to 0.5 percent of GDP. In other words, pre-SARS, our estimation is 5.5 percent. This is not similar to what government's projection, but we're using tighter standards. Therefore, the fiscal—

Vice Chairman D'AMATO. So maybe half a percent is the impact?

Mr. TAO. That's right.

Vice Chairman D'AMATO. Of SARS?

Mr. TAO. Yes.

Vice Chairman D'AMATO. Okay. That's all I have.

Commissioner ROBINSON. Okay. Thank you very much, gentlemen. We benefited very significantly from your testimony and your willingness to appear. And with that, this particular hearing, our first of the 108th Congress, is concluded. Thank you all again.

[Whereupon, at 5:05 p.m., June 5, 2003, the proceedings were adjourned.]

## **U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION'S TECHNICAL BRIEFING ON CORRUPTION'S IMPACT ON GOVERNANCE, POLITICS AND POLICIES**

**WEDNESDAY, DECEMBER 11, 2002**

The briefing was held at 12:30 p.m., in SD-124, Dirksen Senate Office Building, 1st and Constitution Avenue, N.E., Roger W. Robinson, Jr., Chairman, presiding.

Present were: George Becker, C. Richard D'Amato, June Teufel Dreyer, Kenneth Lewis, Patrick A. Mulloy, Roger W. Robinson, Jr., Arthur Waldron, Michael R. Wessel, and Larry M. Wortzel.

OPENING REMARKS OF CHAIRMAN ROGER W. ROBINSON, JR.

Chairman ROBINSON. I welcome Ms. He and Mr. Cheng.

I'd like to start off with our apology for the delay in bringing you in to talk to us. We were in the midst of our last business meeting for calendar year 2002. As we prepare for our year two exercise as a Commission, we obviously had an awful lot to go over in order to generate the kind of momentum that we need for the coming year and to organize ourselves. And from a time management point of view, I take responsibility for that with, again, apologies to you.

We very much value your joining us today for this more informal working meeting, technical briefing, that we have entitled "Corruption's Impact on Governance, Politics and Policies."

You're both well known to the Commission. We'll be able to dispense with some of the formalities in terms of your backgrounds. You've been kind enough to be with us in the past, and we certainly value greatly your participation today.

So, with that, I would ask, which of you would prefer to begin today? Is there a preference?

Ms. HE (Through interpreter): Ladies first, please.

Chairman ROBINSON. Okay, Ms. He, thank you so much.

### **STATEMENT OF MS. HE QINGLIAN**

Ms. HE. I'm pleased to join the meeting. My English is not good enough. I have to ask for help.

(Through interpreter). My topic today will cover the impact of corruption inside China. I think that corruption has already achieved a large impact on the direction of China.

The first is that it has already had a negative impact and losses in the economy. I think that you can say that the economic losses due to corruption inside of the Chinese economy have already exceeded 16 percent of GDP.

The scope of the corruption is extremely wide, but those who are working to curb corruption are very small. And there are only a handful of officials, only 6 percent of corrupt officials were punished, their cases investigated and concluded. Among those investigated, of every six investigated, there was only one who was finally punished.

Currently, corruption makes any laws in China become kind of ineffective. Somebody said that, every 18 days, there is a new law approved in China, but all those laws can never restrain the behavior of government officials.

The third impact of the corruption on Chinese society and in politics is wealth concentrated in a minority of people. Currently, 85 percent of wealth is controlled by 15 percent of the population. The main part of the minority who control the 85 percent of wealth are relatives and children of government officials.

Such kind of an interest group based upon corruption has no interest in carrying out any kind of political reform. It could be said that corruption now lubricates the operation of the Chinese government machine. Now the officials in the lower levels need to bribe their bosses to get promotions or keep their positions. In different cities and different departments of government, each position has a price in bribes.

In hinterland provinces like Hunan, the price to buy a position as a head of township is 30,000 yen. But in the more prosperous Shenzhen, the city near Hong Kong, to buy a position as a head of police office, the price would be 2 million yen.

Chairman ROBINSON. Just a quick question: Does anybody have, in rough order of magnitude, the dollar values?

Commissioner DREYER. 8.3.

Chairman ROBINSON. Thank you.

Ms. HE (Through interpreter): In those more prosperous cities and districts, the price for head of the police office is more expensive, even higher than 5 million.

Now it could be said that almost every government official who earned their personal interest through those illegal or immoral ways, it's based upon the behavior that destroyed their occupational ethics.

In many places, I was asked if the so-called middle class appearing in China is going to ask for positive political change. I tell them, on the contrary, the so-called middle class in China doesn't want political reform and democracy. The middle class believes that democratization, like in the former Soviet Union, may bring about political instability and chaos. On the contrary, maintaining the political status quo could best protect their current vested interests, which leads to the fourth factor.

There is a great amount of capital flight in China. According to my research, in 1995, the ratio of capital flight—my explanation is the capital that fled China compared to the capital invested into China was 52.36. After 1997, the situation became severe. The ratio grew to more than 90 percent. In year 2000, China absorbed foreign capital U.S.\$40.8 billion. But in this year, the amount of capital flight was \$48 billion.

So when the Chinese government advertises itself to the world about its achievements in absorbing foreign capital, it always hides

the fact that a huge amount of capital fled from China. If the foreign capital had not flowed into China at the speed and the rate that it did, then there would have been a great chance of an explosion inside of China, and a financial crisis might have already been seen there.

I especially want to emphasize the capital flight concentrated in the United States. I think the government of the United States should take some measure to prevent such kinds of things taking place, because these guys are eventually criminals in China. They don't love their own country, their own people. They won't be good citizens in the U.S.

And the fifth factor is corruption causes a great extent of social hatred. Essentially, China is not a rich country, as a huge amount of wealth is concentrated in the hands of a small group of people and a majority of the people live in a poor situation. The Chinese government takes only harsh political pressure to suppress any kind of protest at the bottom level in society. In the past recent years, the political control looks more and more like the way it did in the late Maoist era.

More and more people are arrested for criticizing the government. The only difference is that the Chinese government no longer uses the charge of counter-revolutionary, which was used in the Mao era. Instead, they use a new charge. The new charges include stealing state secrets and overthrowing the government, and leaking state secrets, threatening state security, subversion.

There is nothing that indicates that the just past 16th National Congress of the Party, the CCP, will take any political steps. Under such kind of irresponsible government, its rule may only cause China to go into a worse and worse status. For example, the pollution in the environment already caused damage to Japan. I heard such kind of responses in Japan.

And also, more and more people smuggling into other neighboring countries threaten the stability of the countries around China.

My time has arrived, so I'm open to questions.

Commissioner MULLOY. Can we hear the second speaker?

Chairman ROBINSON. I think, if the other Commissioners are willing, we would follow that format that we generally follow.

And, Mr. Cheng, we'd value your remarks, and then we'd like to open it for questions to both of you, if we might.

#### **STATEMENT OF CHENG XIAONONG, PRINCETON UNIVERSITY**

Mr. CHENG. Thank you very much for giving me the chance to get here once again to present my analysis of the situation in China. Now I would like to take this opportunity to describe something in rural China.

Corruption now in rural China has already become institutionalized. In other words, many government organizations in rural China, at the township level, live by corruption. And the corruption becomes their only way to collect illegal money from peasants. I'll give two examples.

Number one, everybody knows that there is a kind of birth control organization in rural townships in China to conduct the birth control policy. However, now those organizations often sell the

birth quota for money. So instead of conducting their part to control the birth rate, they encourage the peasants to have a woman to get pregnant. And at the end, they try to find out who has got pregnant, and then they say to the peasant, "Now it's your turn to give money. If you want more children, give me money and then I'll give you the quota."

So in this situation more and more rural peasant families have more than one child, even more than three children. And the local birth control officials become rich by selling those quotas. So that's a typical way.

Another case is that in many local police offices, they tend to ignore some illegal activities, such as gambling. They know everything about that, but they do not try to prevent that at the very beginning. Instead, they wait until the gambling is going on, then they knock on the door and say, "Hi, guys. You're gambling. Give me money."

So in this way, you can find that those organizations are eventually using corruption as part of their way to collect more money for their living.

So about 2 years ago, many local peasants reported to journalists and even wrote letters to the top level, to the central government, complaining that the collection of fees and the duties are too heavy to be afforded. However, the central government did nothing to improve it, because the political foundation of the central government is those corrupt rural cadres, rural government officials.

The only thing the central government tried was 2 years ago. Once the central government, the premier, Zhu Rongji, accepted a policy suggestion from somebody and tried so-called reform of taxation in a hinterland province. Just several months later, the experimentation was stopped because the local government and the county and the township officials rejected the experiment.

And then a policy advisor gave a suggestion to Premier Zhu Rongji, saying that: "If you really want to keep rural stability, you better stop your experimentation. Forget about peasants, because peasants are not your social foundation. Those rural government officials are your foundation. You better not make those rural officials angry."

Then the central government finally gave up the option to do any reform to reduce the over collection of fees and duties.

That's actually a process one can see that gradually the local government dominates the institutional formation in the rural area. They decide how large the local government body should be, how many people they want to hire, and what kind of level of salary they want to pay, and in what way they'll collect money, no matter what the laws or the documents from the central government say.

In other words, now the central government has nothing to do or is unable to do anything to control the rural government's behavior in over collecting fees and duties. The central government has no way to prevent or stop corruption at the rural level.

So the corruption in the rural area, at the township level or county government level, has already been institutionalized, although the institutionalized corrupt system is against the law itself set by the central government.

The best example is, since 1984 till now, the Chinese central government declared at least 100 times that it was going to stop over collection of fees and duties. However, it never became effective. So nothing changed, and the situation becomes more and more explosive in rural areas.

Now agriculture itself no longer makes peasants' ends meet. For the average peasant family in a hinterland province, now pure agriculture could not feed their children. The cost for planting and for fertilizer, including everything, is over their income. The only way to feed their children is they go out, make some money, find some jobs in cities, and they send money back to their home village. So some scholars in China say that agriculture in China has already been bankrupted.

As most prices of agricultural products already are higher than that of the average prices in the world market, there's no way for the Chinese government to raise the prices of agricultural products. In other words, the kind of bankruptcy of agriculture in China has no way to be improved.

Then people may want to know, is there anyway that China's peasants could be better off? Probably the only answer is to get rid of those government officials. That means political reform. However, neither the bottom level rural township government nor the central government has motivation to carry out such kind of political reform.

So this could be understood in another way, that corruption is and has been institutionalized in China, and it has become a kind of foundation of the current legitimacy and rule of Chinese government.

Thank you very much.

Chairman ROBINSON. Thank you. Those were, as in the past, very provocative, sobering, even shocking, revelations and comments. There's an awful lot there that I'm sure we want to pursue.

Why don't we begin with Commissioners' questions? Commissioner Dreyer?

Commissioner DREYER. First of all, thank you both so much for coming back. The reason we asked you back is because we enjoyed hearing so much of what you had to say the first time.

My question is directed toward the assumption in the Western press, particularly in the United States, that as the middle class in China grows, it will inevitably bring democracy with it. Dr. He has told us that the middle class is not in favor of democracy because it fears instability.

I wonder, however, to what extent each of you feels that the middle class is actually growing. I read in the writings of Hu Angang and Wang Shaoguang that, in fact, the Gini coefficient is becoming higher and higher and higher. So more wealth is being concentrated among fewer people and more people are poor.

And I have read in Dr. He's work that, in fact, what you should have is a diamond-shaped society income distribution, but what you actually have is a pyramid.

In that case, is the middle class in China really growing?

Ms. HE (Through interpreter): That's true, to say that the middle class is not growing and that the pyramid pattern is more and more apparent. And there's one piece of evidence I can point to,

that the college graduates inside China are having a more and more difficult time finding work, and the work that they do find is worse and worse.

One phenomenon needs to be noticed, that in a situation that the illiteracy rate remains very high in China, the intellectual labor or the college students with high education could hardly find good jobs. Such phenomenon has never appeared in other Asian developing countries. Universities and colleges are the creator for the appearing middle class.

Yesterday, I read a report from China about tuition in China. It said that during the past 10 years, the tuition increased 100 times. Now you could say it's strange that, in rural China, those families who have children who are receiving college educations are the poorest of families in rural areas.

Peasant families support the children for college education by borrowing more and more money. However, it's very likely that their children even finished with their master's programs still couldn't find jobs. That may lead less and less peasant families to support their children for college educations in the future.

And in terms of the Gini coefficient, the coefficient recognized by the Chinese government is much lower than what scholars found.

Commissioner DREYER. Just one question. The Chinese government says that the number of illiterates in China is down to 85 million. But at the same time, the Chinese press says that the number of school dropouts is rising. Do you believe the government's figures on illiteracy?

Mr. CHENG. Personally, I don't believe it.

Commissioner DREYER. Okay.

Ms. HE (Through interpreter): I've done research into these types of things, and the government officials are never correct.

Commissioner DREYER. Thank you.

Ms. HE (Through interpreter): I can give an example. When the Chinese government tried to collect the data about the literacy rate, then they sent some people to collect data on the village level. However, the local government sends the village schoolteachers to go to the place to take the test, to show the investigators that, "Well, we only have a few people who really don't know anything."

A schoolteacher told me that he took at least 12 such tests. And every time he was required to take the test, he was paid. So that's how this data was produced.

Commissioner DREYER. Thank you.

Mr. CHENG. And I can add a small personal experience about that because, during the 1970s, I worked in a township level office. At that time, I was a student sent down to the rural area. If you know the Chinese history, all urban young people were sent to the rural area to work as a peasant. And I got the opportunity to be raised up to the township office.

At the time when I was there, I was the person who was in charge of all reports to the top, including statistics. So I know how those statistics are collected. Nothing was really collected; it was simply made by myself. At that time, there was not telephone line. I couldn't call anybody. That township includes about 12,000 population and about 10 brigades.

I often got phone calls from the county government to ask me: “How many tons of grain have been collected from the field?” I have no idea how to collect data, but I have to report. So the only way is that I guess. And I called the other townships. “How many did you report?” And then I decided the growth rate. And then I tried to figure out in which brigades the figure should be distributed, to which brigades.

And those heads of brigades never know the figure I distributed to them. And nobody cared about it. So that’s the way they collect data.

I don’t believe that such kind of statistics have been really changed in China.

Chairman ROBINSON. Commissioner Waldron?

Commissioner WALDRON. I’d like to thank you both for your very interesting comments. I always find people who have grown up in China to be much more informative about China even than our very finest American specialists.

One of the experiences that American business regularly encounters in China is being shaken down, or being blackmailed, by Chinese criminal gangs, such as triads in Shanghai and various other traditional underground illegal organizations.

And it’s also well known that these groups operate outside of China. They operate in Hong Kong. They operate in Taiwan. They operate in Southeast Asia. They operate in the United States and in Europe.

I wonder if you could both say a little bit about the problem, if there is indeed a problem, of China-based organized crime, and to what extent this is coterminous with the government. We all remember that Deng Xiaoping said that there were bad triads but there were also patriotic triads. And it’s not unheard of for Chinese politicians—or, for that matter, even American politicians—to stay in power by relying on criminal gangs.

So I’d welcome your comments on that and particularly on to what extent this is coming into the United States now. I worry very much about this.

Ms. HE (Through interpreter): To analyze Chinese politics, one may need to notice the growing importance of the organized criminal organizations in China. In 1998, when I wrote my book, I indicated that problem. But such a problem becomes more severe in the past years.

It could be said that many local governments have already been mafia-ized. In many cases, the local governments want to collect illegal money, but they better not do it themselves. Then they rely upon the help of mafia organizations.

It’s a commonly known secret in China that the entertainment industry in China is controlled by mafia organizations. Since 1997, criminal organizations began to expand to other industries. I have collected a lot of information about the topic, and I am going to do a report about it. I’m seeking a grant for the research, and it has not been finished yet.

There are several typical ways that the criminal organizations cooperate with the government officials. One way is the criminal organizations establish a company, a business, in which they re-

ceive privileges in doing business by the local government officials and protected by the officials.

There are several typical cases. One is in Wenling city in Zhejiang province. The gang head was called Zhang Wei. His company was finally closed by the top government. And when the case was investigated, it was found that at least 67 local government officials were involved in the case and the business of the company. Those officials included the mayor and the party secretary of the city and the chief judge of the court and the head of the local Public Security Bureau, and also the director of local taxation, director of local business administration. All those key figures in the government were involved in that.

And the head of the criminal organization, Zhang Wei himself, has eight official titles. He was a local People's Congress deputy and also president of local media. In his house, there was a special notice put on the wall of his house. It said that this house was particularly protected by the Public Security Bureau of the city.

Such criminal organizations can be found in Liaoning, Sichuan, Guangxi, in those provinces. If there is a journalist who dares to report such kinds of activities, the criminal organization may kill him.

So sometimes foreign investors, when they go to China to find their business partnership, they don't know that they're going to do business with criminal organizations. There are many cases of Taiwanese and Hong Kong businessmen who are involved in business with such organizations, and they're found dead there, killed by those organizations.

Investors from Western countries usually invest in big cities, especially in those industries that the Chinese mafia organization is not involved yet, so they have fewer experiences with those Chinese mafia organizations. It's a real, speaking in Chinese, economic elite.

They say that if you want to be a successful businessman in China, you need to build up a good relationship with government officials at the top. At the bottom level, you need to build a close relationship with mafia organizations. You have to stand on two ships, one is black, one is white. White means the legal way. The black means the illegal way, the mafia way. You need both.

So if one wants to describe Chinese politics from now on, it might be important to notice that the criminal organizations have more and more important influence in Chinese politics, if people want to get a complete picture about Chinese politics.

The Chinese Communist Party has a close relationship with those gangs and mafias in Southeast Asian countries. When China unified Hong Kong in 1997, to maintain the stability of Hong Kong, the Chinese government did cooperate with some kind of a patriotic mafia organization and asked them to help stabilize Hong Kong. Sometimes the Chinese government also utilizes mafia organizations in Southeast Asian countries to arrest or grasp those officials escaped from China.

Commissioner WALDRON. How about in the United States?

Ms. HE (Through interpreter): If one studies the Fuk Ching gang in Chinatown, New York City, one can find out how the Chinese mafia grow up in the United States. For example, they often use

the Fuk Ching gang against the Falun Gong believers in the United States. When those believers protest in the United States, the Chinese Embassy hires Chinese mafia organization members to hit those Falun Gong believers.

Also, it is noticeable that the Chinese Embassy hires visiting scholars and Chinese overseas students here to spy on other Chinese students by paying them high salaries. When I was at the University of Chicago, I found that there are several Chinese students there who receive salaries from the Chinese Embassy every month, and they got opportunities to spend vacations in the village of the Chinese Embassy. Also, they collect information for the embassy and also they try to threaten some people, what the embassy wants them to do.

Chairman ROBINSON. Mr. Cheng, do you have any further observations on those questions?

Mr. CHENG. In terms of the Chinese gang in the United States, I want to mention one thing. In the past 10 years, there are many illegal immigrants, especially from the Fujian province, smuggled into the United States. They especially concentrated in the Chinatown of Manhattan. And there, many of them apply for political asylum here in this country with different reasons. In the early 1990s, they applied for the Tiananmen massacre, and then for birth control, and later for Falun Gong. As soon as they've got their asylum approved, they immediately go to the Chinese Embassy or consulate to get a Chinese passport. With the green card and the Chinese passport, they go back to China.

So this country never really punishes those guys, because according to the law in this country, if they apply for political asylum, they should not go to China again. If they can go to China, they have no reason to get asylum. But those guys are eventually the foundation for the local mafia organization.

Mr. WELKER. Ms. He just had one story about the Fuk Ching gang in Manhattan, that the New York City-based consulate has been very successful in turning out the Fuk Ching gang for both the welcoming of dignitaries of China when they go to New York, for containing the Falun Gong in their public protests, and even this year for the June 4th protests. They employed the Fuk Ching gang to contain those protests.

Chairman ROBINSON. With that, I'd like to turn to Commissioner Lewis.

Commissioner LEWIS. Thank you both very much for coming and helping educate us about what's going on.

You made the point that there's a large capital flight in China, and had there not been the direct investment coming back into China, there could have been an explosion. How much of the capital flight is coming back into China as direct investment?

Commissioner DREYER. The so-called roundtrip capital, which looks like foreign direct investment, but is actually Chinese capital that left China and is coming back.

Commissioner LEWIS. Right. That's the question.

Mr. CHENG. The case of the roundtrip capital eventually took place between Mainland China and Hong Kong. That's the kind of capital manipulated by the state-owned companies. They send money to Hong Kong and then establish a company in Hong Kong

as a foreign company, then reinvest back into China to get taxation benefits.

Commissioner LEWIS. Those are the SOEs.

Mr. CHENG. Yes. But what she talked about, in my understanding, the key component of capital flight now into the United States is capital that will never go back to China.

Commissioner LEWIS. I see.

Mr. CHENG. For example, in Fort Lee, New Jersey, just opposite the Hudson River from Manhattan, I know there are a lot of luxury houses bought by anonymous Chinese rich people. They buy houses with cash. They do not have any work. They just live there, using the money they took from China. So that money is the money they're going to live upon.

Commissioner LEWIS. So the capital flight money that Ms. He was talking about does not go back?

Mr. CHENG. No, because those people cannot go back. They are criminals.

Commissioner LEWIS. Thank you. I have a question. You mentioned the pervasiveness of the corruption in rural China. In terms of the scope of this, what are the numbers of the peasant population that are involved in this system where there's corruption and they cannot afford to make it because of the payments they have to make? What are the numbers?

Mr. CHENG. It could be said that in the majority of villages, peasants cannot afford those—

Commissioner LEWIS. If you were to estimate the numbers of people involved in this—

Mr. CHENG. You mean the people involved in collecting?

Commissioner LEWIS. No, no, no. The peasants who can't make it; are you talking about hundreds of millions of people?

Mr. CHENG. I would like to say that the majority of the peasant families cannot afford it. However, those collections are forced. Peasant families cannot prevent themselves from paying those. They don't want to pay, but they have to pay.

Commissioner LEWIS. But how many peasant families would you say are in China?

Mr. CHENG. Currently, there is a 700-million-peasant population in China, about 200 million peasant families. The majority of them cannot afford it.

The problem is the local government hire a kind of militia equipped with, sometimes, guns. So once there is a small scale of protest by peasants, they immediately send the militia in to suppress those protesters and arrest the head of those protests.

That's the way now the Chinese government is trying to silence and to suppress them.

Commissioner LEWIS. In terms of the corruption that permeates everything, the students who want to come to the United States to study, are they also involved in paying off people to be able to come here? Do they also have to make payments to get permission from China to study in the United States?

Mr. CHENG. I don't think so, because eventually if students want to study here, first, of course, they have to graduate from China's colleges. Then the next step is they have to pass some special language exams held in the U.S. by the U.S. organizations, like the

TOEFL, the test of English as a second language, and then the GRE, what American graduate students do.

Commissioner LEWIS. But the corruption doesn't include them having to make payoffs to come here?

Mr. CHENG. Not yet. And then they need to apply for a visa. Those processes actually are not controlled by the Chinese government.

Commissioner LEWIS. I see, I see. And the Chinese government doesn't have to give them permission to leave China?

Mr. CHENG. So far, not yet. If they are accepted by an American university, with the notice, they can apply for their passport and pay just the regular fee for the passport.

Commissioner LEWIS. The reason I ask this is, you alluded to this, that many Chinese students in the United States are giving information back to the government about what's going on in the United States, both security things and just industrial espionage. And I was wondering what hold the Chinese government has over these people to force the students to do this?

Mr. CHENG. There are at least two ways. Number one, the government controls the extension of passport validity. So if a student does not cooperate with the government, once his Chinese passport expires, the Chinese Embassy could refuse to extend the passport. So that's one thing they can control directly.

The other thing is, all their family members are in China.

Commissioner LEWIS. And threats will be made to the families?

Mr. CHENG. And also I know that now the Ministry of State Security in China sometimes recruits some visiting scholars. When they heard of some people going to have a visiting scholarship here in this country, they visit those guys and say, "Well, you better work for us. And then we'll pay you, say, \$2,000 a month. You just report to us what happened in Harvard, in Princeton. And sometimes when we need you, we'll tell you what to do."

Mr. WELKER. Ms. He wanted to add, about the approval for the students to come overseas, that the middle-level bureaucrats who are doing this have not yet begun to threaten the students in that way. It is, perhaps, too dangerous for them. But also, that the—

Commissioner LEWIS. Why "too dangerous?"

Mr. WELKER. There are too many. There are too many students who are trying to get the applications.

The other was about the sons and daughters or the wives of the officials, of course, are the ones who don't have any problems getting visas or passports at all. They come out of the country well before the possibility of a corrupt official, lays the groundwork and uses the establishment of a family member living overseas. Most particularly, this is happening in the United States in California right now.

Commissioner LEWIS. They will precede the corrupt officials so the money is here—

Mr. CHENG. They send their children and wives first, to the United States—

Mr. WELKER. That's correct.

Mr. Cheng.—to settle down here, obtain green cards and buy a house. And then, when the senior official in China finds himself in

danger for corruption, they just buy a ticket and fly to the United States.

Commissioner LEWIS. My last question to each of them—

Chairman ROBINSON. Okay.

Commissioner Lewis.—where do you see this leading? If there's such corruption and such lack of faith in the government and such disillusionment, where does this lead?

Mr. CHENG. I think it leads to less responsibility of the government and its bureaucratic apparatus. I heard from a director of a research department of the Chinese government about such words. I asked him, "Do you really worry about the dangers"—

Commissioner LEWIS. Of revolution.

Mr. CHENG. "Explosion." I didn't use the word "revolution."

Commissioner LEWIS. Yes, yes.

Mr. CHENG. I just asked "dangerous explosion." He said, "Well, it depends upon when.

"For me," he said, "I have my daughters and wife here in Washington, D.C. I don't care about that. I just need to bring my toothbrush and a flight ticket. That's all. One day if there's an explosion, I'm going to leave. That's all. My money is in the United States. My family is there. I don't care about that."

And most higher senior officials keep the same idea that he had. But those people who are at lower levels, the students have enough money to save in the United States for their family's future. They want a longer time involved in corruption to collect more money. So once they get enough, they're going to flee as well. In their view—now it's my explanation—in their view, China's just a sinking ship. They don't care about the future of the ship if the ship is going down or whatever.

Commissioner Lewis. "Going down" means "explosion?" Do you agree that that will happen?

Mr. CHENG. It's not impossible, in my opinion.

Ms. HE (Through interpreter). If one analyzes the cases of corruption in China, one can find a particular and strange phenomenon. In several cases reported in China, senior officials, when their homes were searched, several copies of foreign passports were found—not only one, several foreign passports.

For example, the former governor of Yunnan province, he was arrested for corruption years ago. When his home was searched, they found that he had five foreign passports. Another case is when the deputy mayor of Shenzhen city, where I lived, when the deputy mayor was arrested, it was found that his wife and children already settled down in Los Angeles.

Also another case is the case of the deputy chairman of the National People's Congress in China, whose name is Cheng Kejie. When he was arrested, it was found that his lover took all the money he got through corruption and settled down in Hong Kong.

I believe China's people cannot count on such a group of government officials who are ready to escape from China at any moment. If the American people learn that President Bush left a lot of money in a foreign country, they would not have elected him as a president.

Chairman ROBINSON. May I turn to Commissioner Becker, please?

Commissioner BECKER. Yes, I want to thank both of you. I find your testimony incredible in many respects.

The word used was “pervasiveness” of corruption, and I don’t want to be redundant on one of the earlier questions, there is some \$50 billion worth of foreign direct investment going into China this year. To what extent do foreign investors benefit as a result of this corruption?

It seems to me that this is so pervasive with local officials that all industry and all investors going into China have to participate in some way. Yet we talk to business here in the United States and they deny it. Only under very unusual circumstances do they recognize some form of corruption. But there’s an incredible amount of business that goes into China every year. This has not slowed down. In fact, it’s accelerated. So this must be an acceptable practice.

I was just wondering if you would comment on the business relationship of investors to this type of corruption.

Mr. CHENG. Personally, I lack such kind of evidence through business investigation. As you know, it’s very difficult to do that, ask businessmen to tell you the truth of what they did in China. But I can provide a case, a story I heard from China.

About 6 years ago, when I visited the provincial government, I was given a story about a loan case to build a local expressway. This loan was borrowed by the provincial government to build a highway between Nanjing and Shanghai. And during the period, several foreign banks competed to land the loans. The different banks used kind of a similar strategy.

One bank hired a son of the former central bank head. The other bank hired the son-in-law of the minister of finance. And then the two banks finally competed for the loan through their fathers. So they hire sons and let sons recruit their fathers to intervene in the loan case.

The condition, if the father agreed to do so, is, number one, when the son is hired, the son was given by the bank a green card in the United States. Number two, at that time it was ’96, U.S.\$100,000 was deposited under the name of the son in a U.S. bank by the foreign bank who wants to get the business contract. And then finally, the two fathers involved in the competition, one threatened the provincial government, saying that, “Well, if you don’t lend money from the bank my son represents, you’re not going to get any loan from the central Bank of China.” The other father said, “Well, if you don’t lend money from my son’s foreign bank, you’re not going to get any taxation benefits.”

So finally, the local government told me: “We have no way to deal with this. Finally, we cut it half. You each get half.”

However, the competition results ended in a way that both banks got the deal at the highest rate, not the least rate. In other words, all the costs for the son’s green card are covered by the Chinese side. That’s the way I heard it.

Commissioner BECKER. You feel that this is across-the-board, this type of activity, this type of pressuring for favorable business or even permits? That this is a common way of doing business for firms coming into China?

Mr. CHENG. I cannot say that based upon my personal experiences, because I haven't enough evidence to prove that. But I heard a lot of cases like that.

Another case I heard is—

Commissioner MULLOY. Could I stop you for one second? Do you happen to know the names of those foreign banks?

Mr. CHENG. I was not given a name. I heard a story from Hong Kong. When I visited there, I was given a story by another failed banker. He was angry and told me the story. But later, when I visited China, I found the same story and was convinced by the local government, the provincial government. They told me the same thing. So I believed, eventually, it's true.

Commissioner BECKER. If the United States was absolutely determined to stop that kind of activity and made it illegal, punishable by severe sentence or whatever restrictions here in this country, if they enforced it, if they researched it, if they punished people for doing this, if they could find this out, do you think this would stop that activity? Is this just a price of doing business in China?

Mr. CHENG. I don't think it's a necessary price, according to the general business ethics. But in the circumstances of Chinese institutions, the Chinese political system, it seems that that's the way that the Chinese businessmen, the Chinese government, and the foreign businessmen, have to encounter.

Commissioner BECKER. It is the price of doing business.

Mr. CHENG. It's not necessary, and it should not be, but it is.

Commissioner BECKER. It is, okay.

Mr. WELKER. Ms. He says that if they were to look and they were unable to find it, she would have a hard time believing that.

Ms. HE (Through interpreter). I think that there's more than just the single example, so the Americans should know. It's similar to the relationship between Zhu Rongji's son and Morgan Stanley, or the relationship between Motorola and Jiang Zemin's son.

I was just in Japan and had the opportunity to talk with some Japanese officials about this problem, and the Japanese seem to have more willingness to go along with the operations inside of China to use corruption as a way of doing business. But they're having problems finding proper agents to do this because most of the sons and daughters of the high officials prefer to come to America to study as opposed to going to Japan.

Commissioner WALDRON. Could I just add, I once asked an American lawyer with a top American law firm in Beijing who has many years of experience if he could think of any example of a deal being made according to the rules, that's being done the way it says that it ought to be done, and he couldn't think of a single one. Every single one was special in one way or another. American businesses, foreign businesses. In other words, had he ever encountered a negotiation or an investment which had been done by the book from beginning to end, and he couldn't think of a single one.

Mr. CHENG. I can tell another story about the way the foreign company tried to build up the connection. Years ago, my close friend wanted to get a job for foreign companies in China. He found an opportunity for Nomura, a well-known Japanese stock company.

Commissioner MULLOY. Yes, securities.

Mr. CHENG. Yes. And then the company set several requirements, very particular. Number one, he must have had a position before in Chinese government at the division level, no lower, not lower than division level. In other words, this guy personally had some contact with Chinese government. Number two; he has at least 3 years' work experience in banks in Western countries. Number three; his father must have a position higher than deputy minister.

And my friend lives in Boston. He had the three conditions satisfied and he applied for the job. But he told me the result, that Nomura found at least six such guys in the United States for the job, and he failed.

So this case implied that although Nomura is a Japanese company, I believe not only Nomura, many companies find this—eventually, you can't say this is illegal. It's legal to hire some people. But behind it, the deal under the table is illegal.

Chairman ROBINSON. I'd like to turn to Commissioner Mulloy, followed by Commissioner Wessel.

Commissioner MULLOY. The reason I asked you whether you knew the name of those financial institutions that you testified were making bribes is because, if they are American institutions, it is illegal under the Foreign Corrupt Practices Act for American corporations to make bribes in order to get business. So the officials of those banks could be subject to criminal prosecution in the United States. So if you knew the names of those, we would be happy to forward those to the Justice Department to ask them to look into the matter.

There was an article in the Financial Times dated December 9th by Minxin Pei, who is with the Carnegie Endowment for International Peace. He says that it is critical to the survival of the Communist Party that they must contain rampant official corruption in China that they cannot survive. The problem, he says, for the party is that in order to control corruption, they have to do three things, in his view, they have to reduce government influence in the economy, enforce the rule of law, and unleash the press and forces of civil society.

He says their problem is, if they do that, the party loses its power. But if the party doesn't do that, the party is going to lose its power anyway, so they're in a Catch-22 situation, as we sometimes say in America, from a famous novel.

Do you agree that the party is in a Catch-22 situation? That if they don't control corruption, they're going to fall into the ashbin of history, and if they try to control corruption through the measures recommended by Mr. Pei, that they're going to fall into the dustbin of history? If you could both comment on that?

Mr. CHENG. In terms of the first question, I didn't know the name of the banks, but I know one of them is not an American bank. It's a British bank.

The second question, yes, I agree.

Commissioner MULLOY. You think either way they're finished?

Mr. CHENG. But, currently, I believe the regime already recognized that. The priority is not the fate of the country. The priority is the fate of the regime.

Commissioner MULLOY. Of the party?

Mr. CHENG. Yes. They refused to take any reform measures.

In terms of the threat of the corruption to the regime itself, to the system itself, its way is to utilize more kind of totalitarian measures to control society, including tighter media control, increase the size of secret police and those kinds of things.

So they believe that as long as we use those totalitarian measures, we can extend our life as long as possible.

My personal observation is, it is not impossible for the world to see a country with a market system but based on authoritarian or totalitarian.

Mr. WELKER. Ms. He said that in particular the questions of the courts are that the courts are absolutely not separate from the party and that the inability of the party to bring corruption outside of its internal functions is the major problem of the corruption question.

Ms. HE (Through interpreter). It is one way to know how deeply the corruption problem has infected the Chinese system. If you sentence all Chinese officials above division level to a death sentence without any trial, if you kill all of them, there might be some cases where they were innocent; not innocent of corruption, but innocent because not corrupt enough to be killed. But if you kill one by one, then definitely there are many people who will escape from death sentence. So that's a saying in China, years ago.

The reason why the Chinese government doesn't really punish corruption is because corruption has made an elite group into an interest group. In recent years, those officials punished in anti-corruption cases could be classified into several types. One type is those who do not want to pay money to his bosses, one who gets a lot of money, but he does not want to pay his bosses to buy some protection; then he got punished. Once he was put under investigation, nobody comes out to protect him.

Another type is his political backing is not strong enough. For example, before the 16th Party Congress, several officials who belonged to Zhu Rongji's system were punished. That's the exact case of the second type, because Zhu Rongji is going to leave his job.

So those officials punished are very unlucky. They say that: "I'm not the most corrupt guy. I'm just unlucky."

Chairman ROBINSON. Commissioner Wessel will pose the last questions of the day.

Commissioner WESSEL. I'd like to follow up on a question that Commissioner Becker was asking about U.S. business. He raised the issue of foreign direct investment.

During the debate on permanent normal trade relations, PNTR, we were told that dramatic increases in U.S. foreign investment in China, and moving U.S. businesses there, would dramatically change things, would bring democracy, would expand economic growth, et cetera. I've heard today that college graduates are having trouble finding jobs. I've seen little evidence or heard nothing to indicate that corruption has been reduced.

I'd like your thoughts on whether the U.S. investment, the dramatic rise in investment, is really making a difference. Are the comments the business community are saying, how simply being there would bring about all the changes that many in Congress desire, is that coming true?

Ms. HE (Through interpreter). It must be clarified that businessmen speak for interests, not principles.

I remember several people who work for American companies in China tell me their experiences. At the very beginning, when they told their American boss that for this case we need to invite somebody for dinner and to give some gifts, the American boss said no. But later, their boss found that if they refused to do that, they lose opportunities. And then, gradually, their bosses recognized those corrupt ways.

I have a friend who worked with the Chinese government. Many officials in the Ministry of Telecommunications in China have credit cards given from American companies. The highest credit on the credit card is 2 million Chinese yen. Of course, those American companies will not recognize that here.

I heard a legal professor of Ohio University who had worked in a company in Guangzhou. He told me his personal story. He was born in Taiwan and came to the U.S. when he was 3 years old. He worked for an American company in Guangzhou for 3 years. His job is to take care of the taxation and the fees to the local government. When he went to his office the first time, he got tables listed that there are at least 30 different types of taxes and fees the company has to pay. Later he found that what the company was asked to pay was more than the 30 types.

For example, the local environment protection office not only charges them the regular fees the company has to pay, but the government office also tried to sell the company some detergents. Every time, they try to sell 15,000 [yuan] [of] detergents to the company. The price is three times the market price. And this person refused to buy for the company. Then the Chinese government officials said, "Well, you'll wait."

Then the company received a penalty notice later, saying that their company polluted and it will be punished for 100,000 yuan as a penalty. Instead of paying the 100,000 penalty, the company finally agreed to buy the 15,000 yuan detergents that they had no use for. So they didn't pay the 100,000 penalty.

He had a similar experience in his first year in the company. From the second year, he finally gave up the position, to enlist principles, in order to reduce his troubles. So he says that the 3-year experience for me is really valuable; otherwise, I won't understand what China will be. He said that he will never trust anything said in a Chinese newspaper.

Chairman ROBINSON. Well, we all wish to thank you once again for, really, an enormously informative and candid set of sessions.

In fact, in that connection, as a departing question, Commissioner Lewis wants to pose to you one final question. And that really will wrap it up.

But I, in advance, want to extend the Commission's heartfelt thanks to you for not only appearing today but offering such a candid, informed set of views to help us really understand the complex state of play. For that, we're very grateful.

And with that, I turn it over to Commissioner Lewis to end the day.

Commissioner LEWIS. I would like to say that your lives have really been an inspiration, and it's really been so informative to us.

But I'd like to ask you—you've been so honest and forthcoming, the two of you—do you have any fears that the Chinese government will go after your relatives that are still in China?

Mr. CHENG. Not yet, because my parents are already 80 years old.

Ms. HE (Through interpreter). I think it's very simple to say that since I was willing to speak openly in China about the questions of corruption and was kicked out of the country because of it, that's fairly clear. And since I was very rare in what I was talking about, I was able to get a great deal of reaction among my fellow Chinese people. But I can say that, at least in my case, since I did write these things all down in a book, it's a good sign to say that I'm quite sure my book is still selling in some places inside China. And I also know that in looking on the Internet, I see people who are referring back to my work.

Commissioner LEWIS. So she has no fear, then?

Ms. HE (Through interpreter). There's nothing for me to really be that afraid of anymore. But there is one thing that I would like to remind you all about. Since I've been here in the United States, I've had the opportunity to perhaps talk about cooperative programs with a number of people, especially those Chinese-American scholars. But many of them have a very hard time getting at the real situation inside China, because of their personal conditions.

Last month, I was able to go to a discussion at Columbia. And at that meeting, a professor from Duke University made a public presentation of his research. And in the course of the research, he determined that 68 percent of the respondents felt that everything was fine in China. So I had to ask at the time, "In the course of you carrying out your research, what was the cooperative organization of the Chinese government that you worked with, and what type of people participated in the survey?" And he said, "Well, there was none. It was me. I did it by myself." And I said, "I feel that's very strange because, as far as I know, in 1998, the central authorities put out a central directive. And in this directive, it said that anyone carrying out such surveys inside China must go through the government to find a cooperative partner organization and that all of the statistical results would have to be cleared with the Statistics Bureau. And so even those of us in China doing this work had to follow those rules. And if then you did not have to follow these rules, then you are truly exceptional."

Chairman ROBINSON. Well, may you one day be able to return to a free China.

Thank you very much.

[Whereupon, at 4:08 p.m., the Commission briefing was adjourned.]

## CHINESE LEADERSHIP SUCCESSION AND ITS IMPLICATIONS

MONDAY, SEPTEMBER 23, 2002

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION,  
*Washington, D.C.*

The Commission met in Room 124, Dirksen Senate Office Building, Washington, D.C., at 9:00 a.m., C. Richard D'Amato and June Teufel Dreyer (Hearing Co-Chairs), presiding.

OPENING REMARKS OF CHAIRMAN C. RICHARD D'AMATO

Chairman D'AMATO. The hearing will come to order. Good morning.

Today the United States-China Security Review Commission opens its initial public hearing since the release of our first annual report to the Congress in July.

The commission has held a total of 10 hearings. These hearings were enormously valuable in informing the commission and the public on the evolving relationship between the United States and China, particularly the economic relationship.

The purpose of the commission is to assess the security implications to the United States of the growing economic relationship with the People's Republic of China. As I mentioned, the hearings resulted in a far-reaching report, issued to Congress on July 15, 2002, with many important recommendations for legislative action.

And for those of you who have just joined us, the hearings have been published as a Senate document. Available outside on the table are copies of the hearings, the report, and the documentary annex on research that the commission supported during its investigation.

Today, the commission welcomes two panels of well-respected China watchers to discuss the leadership succession now underway in Beijing. The Chinese Communist Party has delayed and is holding its 16th Party Congress on November 8, about 2 months late. At the party congress, the top leadership positions in the party will be parceled out to a select group of high-ranking cadres. These men will lead the 65 million-member Communist Party, the largest remaining Communist Party in the world.

This party congress has been highly anticipated for a number of years, yet we know far too little about its implications and the dynamics leading up to it.

For a country as important as China is, particularly to the United States, and with whom we have such a growing and important economic relationship, it is stunning how little we know of its leadership transition and what attitudes and plans its new leaders

have regarding the United States. In a sense, Chinese politics is a political magic show, and we don't know exactly what is going to be pulled out of the hat at the end of this party congress. Whether rabbits, rodents, or raccoons, we will be interested to find out.

There are a number of important issues to be settled at the party congress. We don't know much about the composition of the new Chinese Communist Party leadership at this time because China remains a country ruled by a very tiny, elite group of men, as opposed to by law. There are many unanswered questions concerning the future direction of China's domestic and international policies, and their attitude toward the United States and toward engagement. And it will be a while before we find out just exactly what those attitudes are.

The witnesses in today's hearings were asked to look at the broader implications of the leadership transition, at the process of how the party chooses its leadership, and how the party-PLA nexus influences the succession of politics. In other words, what is the continuing influence of the PLA in this process?

The commission asked them to analyze these issues with an eye toward the history of the Chinese Communist Party and the PLA, to identify trends that could lead us to a better understanding of the future Chinese government.

The party congress will determine who will lead China for at least the next 5 years, through what promises to be a critical period in its modernization drive.

Today we have two panels. We welcome our first panel, very distinguished observers of the Chinese scene.

Willy Lam is the senior CNN China analyst and is based in Hong Kong, and we welcome him. He has come from Hong Kong to testify here today. He is the author of a number of important books, one of which, "The Era of Jiang Zemin," is available. He was nice enough to bring copies for the commission. Willy Lam is one of the most prolific and widely read writers in the China-watching world. We thank him for coming.

The second panelist, Bruce Gilley, is the coauthor of the upcoming "China's New Leaders: The Secret Files," a highly anticipated book he wrote with Andy Nathan of Columbia University. He is also the author of "Tiger on the Brink: Jiang Zemin and China's New Elite," and other works on China. Mr. Gilley is presently a doctoral candidate at Princeton.

Third, we have Professor Cheng Li, a professor of government at Hamilton College. Currently, a fellow at the Woodrow Wilson Center for scholars in Washington, D.C., he is an accomplished scholar on China. Professor Li's books include "China's Leaders, a New Generation," and "Rediscovering China."

Thank each of you for coming. The way we will do this is that each one of you will have an opportunity to give a 10-minute oral opening statement. You will see a warning signal at 8 minutes that you have 2 minutes to sum up. And after the three of you have made your presentations, we will open up the hearing for questions. This panel will last about an hour and half, so hopefully we will have a very nice, in-depth discussion.

[The statement follows:]

## PREPARED STATEMENT OF CHAIRMAN C. RICHARD D'AMATO

Good morning. Today, the U.S.-China Security Review Commission opens its initial public hearing since the release of our first annual report to the Congress on July 15. Last year, the Commission held a total of ten hearings. Those hearings were enormously valuable in informing the Commission and the public on the evolving relationship between the United States and China, particularly the economic relationship. They enabled us better respond to the Congressional mandate to assess the security implications to the United States of the growing economic relationship with the People's Republic of China.

Today, the Commission welcomes two panels of well-respected China watchers to discuss the leadership succession now underway in Beijing. The Chinese Communist Party will hold its 16th Party Congress on November 8 if all goes according to plan. At the Party Congress, the top leadership positions in the Party will be parsed out to a select few high-ranking cadres. These men will lead the 65 million member Communist Party, the largest remaining communist party in the world.

This Party Congress has been highly anticipated for a number of years. Many observers see this Party Congress as a passing of the torch from one generation to another. Others see it as the next step in a leadership succession laid out by Deng Xiaoping more than a decade ago. Others see it as an opportunity for the Party to make a break with the cabal that rose to power following the Tiananmen Massacre. Still others point to the possibility that the Congress will mark the first normal transition of power in the 80-year history of the Communist Party.

There is a number of important issues to be settled at the Party Congress. We don't know much about the composition of the new CCP leadership at this time. And since China remains a country ruled by man—as opposed to ruled by law—there are an even larger number of questions concerning the future direction of China's domestic and international policies once the new leaders take over.

This hearing will touch upon the personalities involved only so far as it leads to a greater understanding of the direction of the Party, the direction of government policies under the CCP and the direction of China. The witnesses in today's hearing were asked to look at the broader implications of the leadership transition, at the process of how the Party chooses its leadership and how the Party—PLA nexus influences succession politics. The Commission asked them to analyze these issues with an eye towards the history of the CCP and the PLA, and to identify trends that could lead us to a better understanding of the future Chinese government.

Although successive leaders have fought against the "peaceful evolution" of the Party, there have been important changes inside the CCP. Officials in China have debated the pace of those changes, while outside observers have argued about how far they have changed and how far they still have to go. This Party Congress will not settle these discussions. But the Congress will determine who will lead China for at least the next five years and lead China through what promises to be a critical period in its modernization drive.

The Commission is confident today's hearing will contribute to our understanding of these issues. Today's hearing will also inform us as we carry out the mandate of the Congress to examine Chinese government's policies and to further assess the increasingly complex and increasingly important Sino-American relationship.

## First Panel

We welcome in our first panel today: Willy Lam, who is the CNN Senior China Analyst based in Hong Kong and author of *The Era of Jiang Zemin and China After Deng Xiaoping*, among other books. Willy Lam is one of the most prolific and widely-read writers in the China-watching world. We thank him for coming all the way from Hong Kong. Bruce Gilley is the co-author of the upcoming *China's New Leaders: The Secret Files*, a highly anticipated book he wrote with Andy Nathan of Columbia. He is also the author of *Tiger on the Brink: Jiang Zemin and China's New Elite*, and other works on China. Mr. Gilley is presently a doctoral candidate at Princeton University. Prof. Cheng Li is a Professor of Government at Hamilton College and a Fellow at the Woodrow Wilson International Center for Scholars and an accomplished scholar on China. Prof. Li's books include *China's Leaders: The New Generation* and *Rediscovering China*. Thank you all for coming.

Chairman D'AMATO. Why don't we start off with the person who has come the longest way? Willy Lam, would you like to start? And then we will go to Professor Li and to Bruce Gilley.

**STATEMENT OF WILLY WO-LAP LAM, SENIOR CHINA ANALYST, CNN**

Mr. LAM. Thank you, Mr. Chairman, distinguished members of the commission, and ladies and gentlemen. Good morning.

It's a pleasure to have this opportunity to address the commission, which I think has produced very important work and whose latest study, the 200-page report, I think has been scrutinized by the Chinese leadership.

But turning to today's topic, most of my ideas and policies have been laid out in the written submission, so here I will just give excerpts from my written submission.

There has, indeed, been a buildup of expectations concerning the 16th Party Congress. This is looked upon as a summation of Jiang Zemin's 13 years in office. The expectation is that, perhaps, both in terms of rejuvenation, restructuring the political processes, and particularly laying out new paths of reform, now that China recently joined the WTO, there are all sorts of expectations on the economic front that there will be regular steps ensuring that China's economy will dovetail with international norms.

However, as of now, whatever we get in Beijing, it seems quite obvious that, in the course of the preparation for the congress, as well as internal, factional infighting amongst different cliques in the party, there have been some problems concerning the various areas.

But first of all, perhaps, let me address the more positive element, and that is, I think, in terms of rejuvenation, there indeed will be quite a number of steps taken to introduce young and more diverse and more professional cadres into the leadership. We see the almost wholesale concession from the so-called third to the fourth generation leadership in the elite Politburo Standing Committee, which is China's highest council of governance. At least four if not five of the members of the Politburo Standing Committee will be retiring, and then we'll see perhaps 65 to 70 percent of the Politburo and also 65 to 70 percent of the Standing Committee members being replaced by younger men and women.

We also see the members of the so-called fourth generation—that means, in the Chinese context, just teenagers—the cadres now aged maybe late 30s to late 40s. These cadres, most of them have had ample exposure to the West. Some of them have advanced foreign degrees from the U.S. and other universities. They have come home to China, and some of them have been promoted to vice ministerial or vice governor positions.

So we see, indeed, a determined effort by the leadership to jumpstart the rejuvenation process. At the same time, Jiang Zemin will, at this congress, table a motion to revise the constitution, enshrining this Theory of the Three Represents as one of the guiding principles of the party.

I think most of us know what the Three Represents mean. Basically, it means that the party must represent the foremost productivity, the most of one's culture, the interests of the broad masses, and so forth.

Under the Three Represents Jiang will be introducing more members of the so-called new classes. That means private entrepreneurs, professionals returning from abroad. And we anticipate that in the coming 5 to 10 years that leads up to the 17th Party Congress in 2007 and subsequently, more members of the new classes will be not only inducted into the party but perhaps promoted to more senior positions.

And in terms of geographical distribution, I think we'll see more cadres from the central and western provinces being inducted into the Standing Committee and even into the Politburo. For the past 10 years or so, we have seen the predominance of the so-called Shanghai faction, or cadres from Shanghai and coastal areas, pretty much monopolizing major positions at both the central and regional levels. Perhaps that might be a shift to a more equitable distribution of the importance geographically. There might be more officials from the central and western provinces being inducted into the Politburo.

However, the transition in terms of age remains a bit messy because of Jiang Zemin's apparent efforts—which has been discussed at length in the media, both in the U.S. and Hong Kong, and other places—efforts by Jiang Zemin to hang on to some position, perhaps the chairmanship of the Military Commission after the congress.

So this transition remains incomplete, the transition from the third to fourth generation. And unless the fourth generation has a clear-cut mandate, it's doubtful whether they can carry out some of the reforms that the outside world expects them to do after the 16th Party Congress.

By means of the character of the fourth generation, they are very cautious, risk-averse politicians. And unless they have a firm grip on power, it's unlikely they will introduce major changes.

It's also true that at a time when China is rocked by social instability—for example, unemployment and various disturbances, both in cities and the countryside—the fourth generation leadership would not press ahead with new reforms unless they make sure that the country is stable.

So for all these reasons, unless they're given a clear-cut mandate by the third generation, this will affect the progress as well as the pace of reforms.

The other problem of the transition we have seen so far is that Jiang Zemin has really politicized the PLA. In the past few months, he has encouraged several hundred generals to write petitions to the central leadership, asking Jiang Zemin to stay, saying that, "because Jiang is such an important figure, we can't afford to do without Jiang." So we have more than several hundred petitioners asking Jiang to stay on as general secretary and head of the Military Commission.

The army has also been at the forefront to promulgate this campaign to study the Theory of the Three Represents.

So we have suggestions in Beijing that in return for doing so much for Jiang Zemin, the generals expect rewards after the party congress, perhaps in terms of a bigger budget for the army and an even bigger say in both foreign and domestic affairs.

After Hu Jintao and his fourth generation colleagues—for example, Wen Jiabao, who is the front runner to become prime minister—after they have taken over, for all the reasons I mentioned, I think they will only move cautiously in their first term. That means until the 17th Party Congress in 2007, they will be hamstrung, to the extent that Jiang Zemin will be staying in the back. Jiang will still remain the core of the military. And with Jiang being pretty much the power behind the throne, it's doubtful

whether the fourth generation could get a quick start on major reforms.

Take political reform, which is the focus of interest amongst national observers. Even though political reforms in various manifestations have been discussed by fourth generation cadres, such as Hu Jintao and so forth, those are still on the drawing boards. But from what we are given to understand, it's quite likely that in the coming 5 years covered by the 16th Party Congress, they will only move cautiously on two fronts. One is the introduction of so-called elitist politics.

Elitist politics has nothing to do with democracy in the Western sense. It just means that the Communist Party would widen the pool of talent from which the top leaders would pick the cadres. So it means, essentially, injecting new blood into the party system, without changing the basically Leninist structure of the party. So this is a way to enable the party to maintain one-party rule, but without introducing real Western, democratic institutions and ideals.

So to this end, under the Three Represents doctrine, they will introduce and induct members of the private sector. They will introduce professionals and returnees from abroad and promote them to senior positions. It's quite possible that they would also induct Hong Kong and overseas Chinese, who are deemed trustworthy enough, to senior levels. As it is, already one or two Hong Kong Chinese have already been appointed to vice ministerial positions in Beijing. From about 5 or 6 years back, they have also begun a new system of open examination to recruit cadres up to the level of head of department.

All this has been done to enable the party to widen the pool of talent from which to pick leaders but without undergoing what is known democracy in the Western world.

The second thrust of political reform under the Hu administration will likely be to expand what is known as intra-party democracy. That means making the decision-making process more transparent and, to some extent, more democratic within the 60-million member Communist Party.

For example, at the grassroots level, we have seen several hundred party secretaries of villages being elected into office. And in the past, in terms of the party chiefs of counties, they were just appointed by one person, namely the head of the provincial party committee. But from now on, all members of the provincial party committees will meet on fixed intervals, and then they will cast the ballots to pick the county chiefs.

So in a sense, a slight expansion of transparency as to how they will pick lower level leaders, but not broad-brush mechanisms to ensure that the top echelon of the party—for example, the Politburo members—can be elected in any methods that can be construed as democratic.

So to sum up, it's true that the party leadership, particularly the fourth generation cadres, realize the importance to undertake thorough reforms, both on the economic and political fronts, to enable China to meet the challenge of the 21st century.

However, it's also true that the political structure remains highly feudalistic in many respects. And Jiang Zemin's refusal to state

categorically that he is giving up all positions, in the past few months, I think has indicated problems with a true transition, which will result in a hamstrung fourth generation leadership. And that would impede their ability to function properly, at least in their first term.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF WILLY WO-LAP LAM

Mr. Chairman, it is probable that President Jiang Zemin will observe the retire-at-70 convention and step down from the post of Chinese Communist Party (CCP) General Secretary at the 16th Party Congress. However, there is a good chance that the 76-year-old head of the so-called Shanghai Faction will remain Chairman of the Central Military Commission (CMC)—the equivalent of commander-in-chief—for a couple more years. And as was the case with Deng Xiaoping from the early 1980s to the mid-1990s, Jiang will remain the “leadership core” for the foreseeable future.

Jiang’s partial retirement has significant implications for members of the so-called Fourth Generation, or cadres in their 50s to early 60s. While Vice-President Hu Jintao, 59, will become party chief at the Congress and state president at the National People’s Congress (NPC) next March, he will still have to defer to Jiang particularly in foreign and military affairs. This will limit the ability of the younger generation to hack out new paths in economic and political reform.

*Likely Composition of the New Politburo Standing Committee:*

Senior cadres who attended the informal leadership meetings at the Beidaihe resort last summer were unable to arrive at a final name-list for the Politburo Standing Committee, China’s supreme ruling council. However, as things stand, the PSC—likely to remain a seven-person body—should be made up of the following cadres (\*denotes near certainty, #high probability).

\*Hu Jintao, 59, Vice-President; expected to become party General Secretary and state president. Hu is the head of the so-called Communist Youth League (CYL) faction, which has close ties to the CCP’s liberal tradition.

\*Li Ruihuan, 68, Chairman of the Chinese People’s Political Consultative Conference (CPPCC); expected to become Chairman of the National People’s Congress in 2003.

\*Wen Jiabao, 60, Vice-Premier in charge of agriculture and finance; expected to be named prime minister in March 2003.

\*Zeng Qinghong, 63, alternate member of the Politburo and head of the party’s Organization Department; expected to be put in charge of party affairs after the 16th Congress.

\*Luo Gan, 67, a Li Peng protege and Politburo member in charge of law and order; expected to become head of the country’s top corruption watchdog, the Central Commission for Disciplinary Inspection (CCDI).

\*Wu Bangguo, 61, Vice-Premier and Jiang protege; expected to become either First Vice-Premier or CPPCC Chairman in March 2003.

#Li Lanqing, 70, currently First Vice-Premier; the close Jiang associate may become CPPCC chairman.

#Li Changchun, 58, currently Party Secretary of Guangdong Province; the Jiang protege is expected to become either First Vice-Premier or Chairman of the CPPCC.

*Broad Factional Affiliation within the Politburo Standing Committee*

Two broad factions are tipped to emerge within the new Politburo Standing Committee. One consists of Hu, Wen, and Li Ruihuan; all three have connections either to the Communist Youth League (CYL) or to the party’s liberal faction once headed by former party chiefs Hu Yaobang and Zhao Ziyang. The Hu-Wen-Li group will be pitted against the Fourth Generation representatives of the Jiang or Shanghai Faction. Two Jiang protege and former senior Shanghai officials, Zeng and Wu, are shoo-ins for the PSC. One other slot will go either to Li Lanqing or Li Changchun. Analysts see a fierce competition between the Jiang Faction and Hu’s CYL Faction regarding the apportionment of important posts in both the party and government. The balance may be tipped by Luo, who will be current NPC Chairman Li Peng’s sole “representative” in the new administration.

The strength of the Shanghai Faction is more pronounced if the entire prospective Politburo is considered. A number of powerful Jiang proteges will either remain or be promoted to the elite body. These include Beijing party secretary Jia Qinglin (who may become an NPC vice-chairman); Shanghai party boss Huang Ju (also a

candidate for NPC vice-chairman); Education Minister Chen Zhili (who will likely succeed Huang as party boss of Shanghai); Minister at the State Development Planning Commission, Zeng Peiyan; and two representatives from the People's Liberation Army (see below).

By contrast, Hu is still struggling to induct more affiliates of his CYL Faction to senior councils. Hu proteges who are tipped to get into the Politburo and/or the Central Committee Secretariat include Party Secretary of Fujian Province Song Defu and the Governor of Henan Province Li Keqiang.

*More Regional Representation and More Emphasis on Western China*

There are four regional representatives in the current Politburo, namely the party bosses of Beijing, Shanghai, Shandong and Guangdong. This geographical distribution reflects the emphasis that the Jiang leadership—which is dominated by the Shanghai Faction—has placed on the coast.

It is likely that there will be more than four regional representatives on the new Politburo. Moreover, at least one of them will hail from the western provinces and cities to demonstrate Beijing's commitment to the "go-west program." The party secretaries of Sichuan Province, Shaanxi Province, and the directly administered city Chongqing are believed to be hot candidates for Politburo status.

Given that two major players in the post-16th Congress team—Hu Jintao and Wen Jiabao—spent quite a sizeable chunk of their careers in western provinces, it is likely the new administration will put more emphasis on west China in terms of resource allocation. Some analysts think the ascendancy of Hu and Wen could signal the gradual waning of the Shanghai Faction's domination of Chinese politics.

*The Role of the People's Liberation Army*

The PLA is expected to retain their usual share of around 20% of Central Committee seats. Yet it is unlikely the top brass can get more than two positions on the ruling Politburo. One of the two seats will go to the Head of the General Armaments Department, General Cao Gangchuan. Cao is a Jiang protege who is credited with the PLA's aggressive modernization of weaponry since the mid-1990s. The other slot will either go to the likely new Chief of Staff, General Guo Boxiong, or the likely new Chief Political Commissar General Xu Caihou. General Guo has apparently made a total recovery from cancer.

A large percentage of incumbent members of the Central Military Commission are due to step down for age reasons: they include Generals Zhang Wannian, Chi Haotian, Fu Quanyou, Yu Yongbo, Wang Ke, and Wang Ruilin. In his effort to turn the PLA into a bastion of support for himself—as well as a model unit for pushing the "Theory of the Three Represents"—Jiang has politicized the army. And in return for supporting Jiang, the generals are looking for rewards such as a bigger budget and very possibly, a larger say in foreign and Taiwan policy.

*Speeding up the Rejuvenation Process: The Rise of the Fifth Generation*

Despite Jiang Zemin's apparent refusal to set an example for rejuvenation by fully retiring at the 16th Party Congress, the watershed conclave will witness the elevation of a record number of relatively young cadres to senior posts. Quite a few members of what is known as the Fifth Generation—cadres in their late 30s to late 40s—are expected to make it into the Central Committee as full or alternate members. Cadres at or below the age of 45 who have already been promoted to senior ranks include the Secretary of the Communist Youth League Zhou Qiang, 42; the Governor of Qinghai Province, Zhao Leji, 45; and the Vice-Governor of Jiangsu Province Zhang Taolin, 41.

In the wake of China's accession to the World Trade Organization (WTO) in late 2001—and the need for the party, government and enterprises to recruit thousand upon thousand of English-speaking, globally-minded professionals—the proportion of senior posts being given to officials in their early 40s or late 30s is expected to increase dramatically in the next decade. A sizeable proportion of Fifth Generation cadres is expected to come from three sources: the CYL; holders of foreign, mostly Western degrees; and private entrepreneurs and managers.

*The Rise of the "New Classes"*

The 16th Party Congress will revise the CCP constitution to enshrine the "Theory of the Three Represents" (that the party must represent the foremost productivity, the most advanced culture, and the interests of the broad masses)—and, in effect, to legitimize the rising political status of the "new classes." The latter is a reference to private entrepreneurs, professionals, and the close to 140,000 returnees from the U.S. and other countries who hold advanced foreign degrees. A few dozen or so members of the new classes have already been picked as delegates to the 16th Congress. And it is possible that at least a few of the "representatives of the foremost

productivity and the most advanced culture” may be made full or alternate members of the Central Committee.

Traditionally, the CCP leadership has appointed politically trustworthy businessmen to advisory councils such as the CPPCC. However, the “red capitalists” have made it clear they want political power—in many instances, senior government and even party positions—that is commensurate with their economic clout. And it is probable that if only because of the large number of the sons and daughters of senior cadres who have become corporate types, the new party leadership may be more favorably disposed toward meeting the political demands of private entrepreneurs.

#### *Broad Policy Orientations of the Fourth Generation Leadership*

Few analysts expect radical policy shifts in what can be described as the first term of the Hu Jintao administration: from this November until the 17th Party Congress in 2007. A major challenge of the post-16 Congress leadership will be to maintain stability in the face of momentous socio-economic changes. For example, unemployment, particularly in the countryside, is tipped to worsen after the country's WTO accession. Anti-government demonstrations and even riots are happening with alarming frequency in urban as well as rural areas.

Following the lead taken by Premier Zhu Rongji, the State Council to be formed next March will continue to integrate the economy with market norms and international practices. Laws and regulations will become more WTO-compatible. Beijing is hoping that enough new foreign investment will be lured into China to offset the closure of chronically uncompetitive state-held companies. The new administration will also allow private enterprises to play a bigger role in hitherto forbidden areas ranging from banking to infrastructure.

Partly to generate enough new jobs, Zhu has for the past five years resorted to deficit financing to ensure an annual growth rate of around 7 percent. However, given the already high national debt burden, Wen Jiabao, the likely new premier, will have less room to maneuver in his effort to maintain the requisite growth clip so as to head off social unrest.

#### *The New Foreign Policy Establishment and its Likely Orientations*

For more than ten years, China's foreign policy has been dominated by two figures: Jiang and Vice-Premier Qian Qichen, respectively the Head and Vice-head of the party's Leading Group on Foreign Affairs (LGFA). Jiang and Qian are also pre-eminent figures in the Leading Group on Taiwan Affairs (LGTA). It is likely that Hu will accede to the leadership of both the LGFA and LGTA after the 16th Congress. It is, however, unclear as to which cadre will fill the shoes of Qian as Politburo member in charge of foreign policy. Hu will be helped by Zeng Qinghong at both the LGFA and LGTA. While his portfolio does not cover foreign or Taiwan affairs, Zeng has from the late 1990s begun to have significant input in diplomacy particularly in relation to Asia and Taiwan.

Given that in the foreseeable future, Jiang will be very much the power behind the throne—especially in foreign and military affairs—it is unlikely that Chinese diplomacy will undergo a pronounced shift during Hu's “first term”(2002–2007). However, as Fourth Generation cadres and diplomats begin to take charge, they will have to make adjustments to existing policy particularly in several areas. These include striking a balance between China's growing economic/military prowess and the need to defuse the “China Threat” theory, which is spreading in the U.S. and Japan; fine-tuning a strategy to contain growing separatist sentiments in Taiwan—and seeking a new understanding with the U.S. over the Taiwan issue; maintaining peace and stability in the Asia-Pacific region to facilitate economic growth, still the party's highest priority; and seeking to build a “multi-polar world order” in the face of America's continued preponderance in world affairs. Compared with Jiang, Hu may face more pressure from nationalistic elements, including the PLA, to pursue an assertive policy vis-a-vis the U.S. and Taiwan.

#### *Possible Trajectory of Political Reform*

The new leadership is expected to adopt two measures to gradually open up the decision-making process while maintaining strict one-party rule. These steps, however, do not constitute democracy as it is known in the West. One is the introduction of “elitist politics” meaning expanding the pool of talents from which the party and government will draw their senior cadres. Thus, the 16th Congress will legitimize the large-scale induction of members of the “new classes”—private businessmen, professionals, and returnees from abroad—into the party.

Bolder steps will be taken to recruit officials up to the rank of heads of department through open examination. And in the wake of the appointment in 2000 of a top Hong Kong lawyer, US-educated Laura Cha, as a Vice-Chairman of the China

Securities Regulatory Commission, a number of senior posts in the banking and financial sectors in Beijing may soon be filled by “patriotic” overseas-Chinese experts.

The other reform measure is known as expanding “inner party democracy.” This will at least in theory make for a higher degree of transparency and democracy within the 66-million member CCP. At the grassroots levels, several hundred village-level party bosses have been voted into office by rural residents. In the past, the provincial party chief had full authority in appointing county-level party secretaries. Now all members of the provincial party committee will meet at fixed intervals to cast their ballots for picking county party bosses. Moreover, plans are afoot to promote some form of separation of powers—and checks and balance - among party congresses, party committees and disciplinary committees at least up to county and municipal levels.

Chairman D’AMATO. Thank you very much. We will move right on to Professor Cheng Li.

**STATEMENT OF PROFESSOR CHENG LI, FELLOW, WOODROW WILSON CENTER; PROFESSOR OF GOVERNMENT, HAMILTON COLLEGE**

Professor C. LI. Thank you. I want to thank the commission for inviting me to participate in this panel discussion on China’s leadership succession.

The topic is extremely important not only for the future of China but also for the future of U.S.-China relations. Unfortunately, there has been more speculation than thoughtful analysis regarding the nature and outcome of this power transition. As the old saying goes, ask five China experts and you’ll get five different answers. Six, if one went to Harvard. I’m sorry. That’s a compliment for those who attended Harvard.

Well, the problems of rumors and the prolonged period of uncertainty prior to the 16th Party Congress are understandable. During this time of political succession, it is natural for Chinese political leaders and their various factions to build coalitions. Coalition building takes time and often involves political negotiation.

The confusion experienced by outside observers is also understandable because China’s political succession has been filled with paradoxes. For example, the intra-party elections and the regional representation have gained importance in the selection of members of the Central Committee. But the process of choosing top leaders—for example, candidates for the Politburo and the Standing Committee—is by no means transparent.

Despite institutional mechanisms that have been adopted in order to curtail favoritism, new leaders have all advanced their political careers through connections, or “guanxi” in Chinese.

While the military’s influence on political succession has declined during the past decade, the Central Military Commission is still very powerful.

While keeping these paradoxical phenomena in mind, we China-watchers should look at the broad trends in Chinese politics in general and political succession in particular. An understanding of these broader trends can help us see the big picture.

Now let me outline what I see as four broad trends in Chinese elite politics: first, from “strongman” politics to collective leadership; second, from revolutionary mobilizers to technocratic managers; third, from the prevalence of favoritism to a more institutionalized selection of elites; and fourth, from the “soldier as king-

maker” to the professionalization of the military. I will conclude with a brief discussion of the implications for U.S. interests.

Now, the first trend. The first trend reveals an unquestionable move from an all-powerful, godlike, and charismatic single leader to collective leadership. A comparison of political succession under Mao, Deng, and Jiang is particularly revealing.

Mao held enormous power. He treated his succession as if it was his own private matter. The omnipresent slogan “long live Chairman Mao” during the Cultural Revolution reinforced the illusion of Mao’s immortality.

During the Deng era, political succession and the generational change in the Chinese leadership became a public concern. Yet, because of Deng’s legendary political career, no leaders dared to challenge Deng’s authority. For many years during the 1990s, people in China and the Sinologists abroad speculated about when Deng would die. Consequently, stock markets in Hong Kong, Shenzhen, and Shanghai often fluctuated widely.

Jiang Zemin is no Deng Xiaoping. He has neither the charisma nor the revolutionary experience that Deng had. When Jiang was appointed by Deng as general secretary of the party after the Tiananmen crisis in 1989, he lacked a solid basis of power in both the party hierarchy and the military. To a certain extent, Jiang has gained in power since 1989 largely through coalition-building and political compromise.

During the last party congress, Jiang was unable to place some of his supporters on the Central Committee. Jiang’s power has been constrained by new institutional rules and procedures.

For this reason, people are concerned about Jiang’s scheduled retirement during the 16th Party Congress this November.

The change in political sentiment in China—from “whether Mao would ever die” to “when Deng will die” to “when Jiang will retire”—illustrates that the trend of strongman politics has gradually come to an end.

The new generation of leaders will rely even more on power sharing and consensus-building due to their own weaknesses.

Second, there is a trend away from revolutionary mobilizers to technocratic managers. Since the 1980s, the criteria for elite recruitment have shifted from revolutionary credentials, class background, and ideological purity to technical expertise and administrative skills. The PRC’s first and second generations of leaders, as we know, were largely peasants turned soldiers. They were skilled at ideological campaigns and revolutionary mobilization, but they knew little of economics, management, and technology. In contrast, many third and fourth generation leaders are well educated and more capable of dealing with economic issues.

Because of a growing demand upon various bureaucratic institutions and geopolitical and geographical regions in China, the so-called fourth generation leaders are particularly known for their skills in coalition building. This is especially evident among the three rising stars in the fourth generation: Vice President Hu Jintao, Vice Premier Wen Jiabao, and the director of the CCP Organization Department, Zeng Qinghong.

In my written testimony, I have a more detailed discussion of each of them. I don’t need to repeat that now. Instead, I just want

to highlight the fact that these three rising stars in the fourth generation leaders are not just party functionaries. They are also capable technocratic managers who are seriously concerned about how to run a modern economy in an increasingly integrated world.

They have also heavily relied on the expertise and advice of other professionals, such as lawyers, economists, financial experts, and public policy specialists.

My third point is that there has been a trend away from the prevalence of favoritism and toward a more institutionalized process in the selection of leaders. The career paths and the political socialization of the new leaders display some paradoxes.

Nepotism in various forms has played a very important role in the selection of new leaders. Political networks such as the Shanghai Gang, the Princelings' Party, "taizidang," the Qinghua Clique, the Fellow Professionals, "tongxiang," the Chinese Communist Youth League Officials, and the Personal Secretary Clusters, or "mishuquan" in Chinese, have all served as important sources of elite recruitment among the fourth generation leaders.

In addition, some new political groups—for example, the "Returnees from Study Overseas," so-called "haiguipai"—have also emerged as a distinct elite group within the central leadership.

But at the same time, the growing diversification of political networks may contribute to the dispersion of power and highlight the need for sharing power. More importantly, in the 1990s, institutional mechanisms, such as formal regulations and informal norms, have been more effectively implemented.

Let me briefly mention six aspects of institutional development in China during the past decade.

Number one, the so-called "election with more candidates than seats," which means that if the Central Committee wants to elect 200 members, they will provide 205—but now the number probably has increased—on the list. Those who are defeated are usually the children of high-ranking officials or those who are very close to Jiang Zemin, as the past two party congresses indicate.

A second development has been the implementation of term limits of 5 years. An individual leader cannot hold the same position for more than two terms. I studied local provincial leaders, party secretaries, and none of them exceeded two terms.

Third, age limits for retirement have been set. Based on CCP regulations or norms, leaders above a certain level cannot exceed a certain age limit. That's why Jiang Zemin should retire, because he is 76 years old and should retire from the Politburo Standing Committee.

Fourth, political norms have been established to curtail overrepresentation, the concentration of representatives from certain regions in the central leadership. If you look at the structure of the members of the Central Committee, you will see each province has two seats. This is not a regulation but a norm, so it is more widely spread.

And the fifth change that has occurred is the regular reshuffling, or the so-called "law of avoidance," in the selection of local leaders. For example, provincial top leaders should not work in their native areas and should be regularly transferred to other regions after a few years with the central government.

Lastly, the promotion of children of high-ranking officials should be confirmed by the Organization Department of the CCP Central Committee.

All these laws and norms indicate there is an increasing pressure within the CCP for genuine political institutionalization. These developments have also affected the behaviors of the fourth generation leaders. New leaders are far more interested in seeking legitimacy through institutional channels than their predecessors were.

As new leaders move into the highest level of power, as leaders move in that direction, having a princeling background or membership in the Shanghai Gang, which was previously an avenue to success, may become a liability.

As a result of these institutional developments, no individual, no faction, no institution, and no region can dominate power. These changes also affect the military. This is the last trend I want to discuss.

For most of the PRC's history, the military has played a crucial role in domestic politics. But during the past decade, the possibility that China's military will interfere in politics, especially political succession, has become increasingly remote. The following events and developments illustrate this point. Let me briefly go through them.

One is the establishment of Group Armies, which directly obey the order of the Central Military Commission rather than the military regions.

Second, a regular reshuffling of top officers has taken place within and between the military regions.

Third, Chinese military involvement in business was successfully banned in the late 1990s.

Fourth, the military is decreasingly represented on the Central Committee, especially the Politburo. Currently, no military figure serves on the Standing Committee.

The fifth point is that civilian leaders currently hold the top posts on the Central Military Commission.

Lastly, no strongman has emerged in the fourth generation of leadership. The fact that none of the rising stars in the fourth generation is associated with the military suggests that they will likely work together to prevent the emergence of a strong military figure.

In conclusion, I would like to address the crucial question of what are the implications of all these institutional developments in Chinese politics for the United States. I believe that these institutional developments and the political trends in China converge with the interests of the United States. The United States does not want to see either the reemergence of a paramount authoritarian Chinese leader or the rise of a strong military regime. Chinese history shows that a radical and xenophobic foreign policy often require a charismatic and sometimes paranoid Chinese leader. None of the frontrunners of the fourth generation seem to have such characteristics.

New technocratic leaders in China are probably not interested in Western-style democracy. But they also do not have an ideology fundamentally hostile to American values. As a matter of fact, the Chinese leadership is becoming increasingly diversified. More lawyers, entrepreneurs, public intellectuals, and social advocates will

increase their presence in the upper tiers of power and participate in the political process and discourse in the years to come.

China's road to a more open and liberal state will of course not be smooth. But China's ongoing effort toward political institutionalization will most likely lead in that direction. The United States should welcome this development because global peace and prosperity in the 21st century requires a stable, cooperative, and responsible China.

Thank you very much.  
[The statement follows:]

PREPARED STATEMENT OF PROFESSOR CHENG LI

The forecasting of the much-anticipated 16th Party Congress of the Chinese Communist Party (CCP) has been marked by the classic dialectic rhythm: optimism alternating with cynicism, certainty giving way to ambiguity. Speculation that Jiang Zemin intends to resign from all three of his posts leads to the hope that the 16th Party Congress will signify the first orderly and institutionalized transition of power in the history of the People's Republic of China (PRC). Yet, this optimistic view has recently been overshadowed by rumors that Jiang may decide to retain the posts of secretary general of the Party and chairman of the Central Military Commission.

Jiang's role after the 16th Party Congress is truly important. However, during the past decade many students of Chinese politics have failed to grasp the changing nature of the Chinese political landscape. Their methods often oversimplified elite factional politics and ignored the institutional restraints that individual leaders, including Jiang himself, had to confront. As a result, they missed the broad trends of Chinese politics, and thus failed to see the big picture.

The prevalence of rumors and the prolonged period of uncertainty prior to the 16th Party Congress are understandable. During this time of political succession it is natural for political heavyweights and their various constituencies to build coalitions. Coalition building takes time, and often involves political negotiation and compromise. This reflects some of the broad trends in Chinese politics today - for instance, the trend from a paramount leader, such as Mao or Deng, to a greater collective leadership. This trend that began during the Jiang era is even more critical today. Due to their own limitations the upcoming generation of leaders, the so-called fourth generation, will likely rely even more on power sharing and consensus building.

An analysis of China's political landscape and elite behaviors also reveals some paradoxes. Increasingly, intra-Party elections and regional representation have gained importance in the selection of members to the Central Committee. However, the process of choosing top leaders (e.g. candidates for the Politburo and its standing committee) is by no means transparent. In spite of institutional mechanisms that have been adopted in order to curtail favoritism, new leaders have all expedited their political careers through *guanxi* (connections). In addition, while the military's influence on political succession has declined during the past decade, the Central Military Commission is still extremely important. This is why Jiang appears hesitant to retire from his role as chairman.

In the following four sections, I will outline four interrelated broad trends in Chinese elite politics today. I will explain the reasoning behind these tendencies and the possible results of paradoxical tensions. A discussion of these trends and some unfolding seemingly contradictory developments can shed light on what kind of leaders will rule China for most of this decade and beyond, and even more importantly, how this most populous country in the world will be governed.

*From "Strong-Man" Politics to a Collective Leadership*

A review of post 1949 elite politics in China reveals an unquestionable trend from an all-powerful, god-like, and charismatic single leader to a collective leadership. Throughout the Mao era, especially during the Cultural Revolution, Mao wielded enormous power. Mao treated succession as if it was his own private matter. Discussion of the transition of power after Mao was taboo. The omnipresent slogan "Long Live Chairman Mao" reinforced the illusion of Mao's "immortality."

During the Deng era, political succession and the generational change in the Chinese leadership became a public concern. Yet, because of Deng's legendary political career, no leaders dared to challenge Deng's authority even though he did not hold any important leadership position following the Tiananmen crisis. However, for many years during the 1990s, people in China and Sinologists abroad speculated

about when the geriatric Deng would die. Consequently, stock markets in Hong Kong, Shanghai and Shenzhen often fluctuated wildly.

Jiang Zemin is no Deng Xiaoping. He has neither the charisma nor the revolutionary experience that Deng had. Jiang lacks the enormous power and influence that Deng once wielded. When Jiang was appointed by Deng as general secretary of the Party after the Tiananmen crisis in 1989, Jiang lacked a solid basis of power in both the Party hierarchy and the military. To a certain extent, Jiang has remained in power since 1989 largely through coalition building and political compromise. During the last Party Congress Jiang was unable to place some of his supporters on the central committee. He will likely encounter resistance from other leaders if he intends to promote several more of the so-called "Shanghai Gang" to the Politburo in the 16th Party Congress. Jiang's power is constrained by institutional rules and procedures, which were initiated during the Deng era and have been reinforced since the late 1990s (as I will discuss later). For this reason people in China and Sinologists abroad are concerned about Jiang's scheduled retirement during the 16th Party Congress this November.

The changes of public sentiment in China - from "whether Mao would ever die" to "when Deng will die" to "when Jiang will retire" - illustrate the trend of "strong-man" politics gradually being replaced by a more collective leadership. Due to their own weaknesses, the new generation of leaders will rely even more on power sharing and consensus building. The passing of revolutionary veterans, the lessons learned from the Cultural Revolution, more diversified channels for elite recruitment, the growing demand in Chinese society for a less authoritarian and more accountable government, and the dynamic interaction between the central and provincial governments all contribute to this trend.

## *II. From Revolutionary Mobilizers to Technocratic Managers*

Since the early 1980s, the criteria for elite recruitment have shifted from revolutionary credentials, class background and ideological purity to technical expertise and administrative skills. The first and second generations of leaders in the PRC were largely peasants-turned-soldiers. They were skilled at ideological campaigns and revolutionary mobilization, but knew little of economics, management and technology. In contrast, many third and fourth generation leaders are well educated and more capable of dealing with economic and technological issues. In addition, because of both the increasing complicity of China's modern economy and the growing demand from various bureaucratic and regional constituencies in China, the fourth generation leaders are particularly known for their skills in coalition building. This is particularly evident among the three rising stars in the fourth generation—Vice President Hu Jintao, Vice Premier Wen Jiabao and Director of the CCP Organization Department Zeng Qinghong.

Hu Jintao is the favorite in the upcoming succession, not only because he is a successor endorsed by both Deng and Jiang, but also because he has established broad political associations throughout his career. Hu is a prominent member of the so-called Qinghua University clique; he headed the Chinese Communist Youth League in the early 1980s; and he has served as president of the Central Party School since 1993. All three of these institutions have become the main sources of elite recruitment.

Hu is acceptable to both the liberal and conservative wings of the CCP. He is open-minded about future political reform in China. During his presidency at the Central Party School, he has supervised some bold research programs to reform the CCP. Yet, Hu's widely publicized television speech in response to the Embassy bombing in Belgrade was an example of his nationalistic appeal during a time of crisis. While all these factors suggest that Hu Jintao will succeed Jiang, he has two primary shortcomings. First, Hu achieved very little during his tenures as provincial chief in Guizhou and Tibet and has accomplished little at the national level. Secondly, he has yet to demonstrate his competence in economic and foreign affairs.

Wen Jiabao is the most likely candidate to replace Zhu Rongji as premier in the spring of 2003. Wen is one of the most popular political leaders in the country. He is often seen as a Zhou Enlai-like figure. Wen's experience is remarkable; he worked as chief of staff for three top leaders Hu Yaobang, Zhao Ziyang, and Jiang Zemin. A crafty political mind, Wen survived the purging of former bosses Zhao and Hu. Wen has gained broad administrative experience over the past decade -surviving political crises such as the 1989 Tiananmen incident, coordinating power transitions, and commanding the anti-flood campaign in 1998.

Furthermore, since the late 1990s, Wen has supervised the nation's agricultural affairs and has overseen the reform of the financial and banking systems. Wen appears a quick learner and a brilliant self-taught economist. His skill as a superb administrator and his role as a coalition-builder explain his legendary survival and

success. However, Wen has two main weaknesses. First, Wen does not possess a solid power base. Second, Wen has no provincial-level leadership experience.

Zeng Qinghong's personality and performance are also remarkable. Zeng is a well-rounded tactician with a long-term vision and a great sense of timing. When he was the head of the Organization Department in Shanghai in the early 1980s, Zeng selected five bright young college graduates in the city and sent them to the United States to study political science instead of the then-fashionable academic disciplines such as physics and engineering. Unlike many of his peers at that time, Zeng sensed the importance of political science and law to the future of China's reform. Not surprisingly, it was Zeng who initiated the recent investigative report on official corruption and social unrest in the country. This report revealed the enormity of the socio-political problems that China faces.

For over a decade, Zeng served as a chief-of-staff for Jiang Zemin. Largely because of Zeng's political connections and his coalition building skills, Jiang has gradually consolidated his power in Beijing. Zeng's main weakness, however, is that he has been too closely tied to Jiang. Zeng has intimidated many other leaders because of his formidable skills in political manipulation.

All three men, Hu, Wen and Zeng, are capable political tacticians. None of them is a figurehead. To put it a different way, none of them is powerful enough to knock out any of the other two potential rivals. Power sharing and consensus building are essential for all three. It is possible that two of these leaders might form a coalition to get rid of one rival. But in the new political climate, coalition building takes time, and it often involves political negotiation and compromise, thus further contributing to political institutionalization in the country.

### *III. From the Prevalence of Favoritism to a More Institutionalized Selection of Elites*

The career paths and political socialization of the leaders of the new generation display some paradoxes. Nepotism in various forms (e.g. blood ties, school ties, regional identities, bureaucratic and/or institutional affiliations, or patron-client ties) has played a very important role in the selection of new leaders. Political networks such as the "Shanghai Gang," the "Princelings' Party" (taizidang), "the Qinghua Clique," the "Fellow Provincials" (tongxiang), the "Chinese Communist Youth League (CCYL) Officials," and the "Personal Secretary Clusters" (mishuqun) have served as important sources of elite recruitment among the fourth generation of leaders. In addition, some new political groups, for example, "the Returnees from Study Overseas" (haiguipai), have also emerged as a distinct elite group within the central leadership.

But, at the same time, the growing diversification of political networks may contribute to the dispersion of power and highlight the need for sharing power. More importantly in the 1990's institutional mechanisms such as formal regulations and informal norms, have been more effectively implemented, in order to curtail various forms of favoritism. These institutional developments include:

#### *"Election with more candidates than seats" (cha'e xuanjiu)*

If the CCP central committee plans to elect 200 full members, it will provide five percent more candidates (210) on the ballot. This method has been adopted since the Thirteenth Party Congress, but has become increasingly effective during recent years. According to recently released reports by the Organization Department of the CCP, the slate of nominees for the deputies for the 16th Party Congress has risen to 12.5 percent more names than slots. The deputies in the Party congress have increasingly used their votes to prevent princelings and those favored by top leaders, especially the members of the Shanghai Gang, from being elected.

#### *Term limits*

A term limit of five years has been established for top posts in both the Party and the government with some exceptions. An individual leader cannot hold the same position for more than two terms. The CCP Constitution does not state that these term limits should apply to the highest positions of the CCP leadership (namely, general secretary and chairman of the Central Military Commission). Yet, it has been effectively implemented in the highest posts in government, including the posts of president and premier of the PRC and chairman of the NPC. Term limits have been strictly implemented for provincial level leaders or below.

#### *Age limits for retirement*

Based on CCP regulations or norms, leaders above a certain level cannot exceed a certain age limit. According to the regulations issued by the Politburo in 1997, except in extraordinary circumstances, all top leaders (including the standing members of the Politburo, and the premier and vice premier of the State Council) must retire by age 70. All ministers of the State Council, provincial chiefs, and top mili-

tary officers in the military regions cannot hold these posts after age 65, and their deputies should not continue to serve after age 63.

*Regional representation on the CCP Central Committee* Since the mid-1990s, institutional measures or political norms have been established to curtail over-representation of certain regions in the central leadership. On the 15th Central Committee, all but one of the thirty-one provincial-level administrations has two full members.

*Regular reshuffling and "Law of avoidance" in selection of local leaders*

The Organization Department of the CCP recently attempted to limit the number of provincial top leaders who work in their native areas. In June 1999, it issued "The Regulation of Cadre Exchange," which specifies the following three rules: 1) county and municipal top leaders should not be selected from the same region; 2) those who head a county or city for more than ten years should be transferred to another area; and 3) provincial leaders should be transferred more frequently to another province or to the central government.

*Restraints on the promotion of children of high-ranking officials.*

As early as in the mid-1980s, especially during Hu Yaobang's tenure as secretary general of the CCP, the Organization Department of the CCP issued orders to limit the appointment of princelings, particularly those princelings whose revolutionary veteran fathers were still alive. The appointment of children of high-ranking officials to the county level of leadership or above should be confirmed by the Organization Department of the CCP Central Committee.

All the above rules and norms indicate there is increasing pressure within the CCP for genuine political institutionalization. These developments have also affected the behaviors of the fourth generation leadership. New leaders are far more interested in seeking legitimacy through institutional channels than their predecessors had been. As new leaders move into the highest level of authority, having a princeling background or membership in the Shanghai Gang, which was previously an avenue to success, may now become a liability. As a result of these institutional developments, no individual, no faction, no institution, and no region can dominate power. Everyone has to compromise, and those who are skillful in coalition building are often favored. This indicates that the upcoming political succession will be more likely to feature compromise and power-sharing, rather than vicious factional fighting.

#### *IV. From the "Soldier as King-Maker" to the Professionalization of the Military*

For most of the PRC's history, the military has played a crucial role in domestic politics. During the late 1960s and early 1970s, military officers not only occupied a large number of seats on the Politburo, but also concurrently held top posts in most of the provinces. Deng Xiaoping made efforts to professionalize the PLA and to undermine military factionalism by reshuffling top officers. However, from 1989 to 1992 strong military figures such as Yang Shangkun and his brother, Yang Baibing gained enormous power in the Party and the government. This is because Deng had been forced to rely on the military to crackdown on the 1989 Tiananmen protests. Later, Deng returned to the path of military professionalization that he had initiated by removing the Yang brothers from the Central Military Commission.

During the past decade, the possibility that China's military will interfere in politics, especially political succession, has become increasingly remote. This is evident in the following events and developments: *The establishment of Group Armies (jituanjun), which directly obey the command of the Central Military Commission rather than the military regions. Regular reshuffling of top officers in military regions. The successful ban of Chinese military involvement in business in the late 1990s. Decreasing representation of the military on the central committee, especially the Politburo; (no military figure serves on the standing committee of the Politburo.) Civilian leaders hold the top posts on the Central Military Commission.*

In addition, no strong military man has emerged in the fourth generation of leadership. The fact that none of the rising stars in the fourth generation is associated with the military suggests that they will likely work together to prevent the emergence of a strong military figure. Of course, the military is always an important bureaucratic institution in an authoritarian country such as China. One cannot completely eliminate the possibility that the military may return to a central role in the political life of the country. But this would take place only under truly extraordinary circumstances.

*Conclusion*

China has witnessed some important institutional developments during the reform era. Yet, China's new leaders have to deal with a long list of daunting economic and socio-political challenges: economic disparity, the negative impact (especially on Chinese farmers) of China's entry into the WTO, urban unemployment, rampant official corruption, ethnic tensions, large-scale industrial accidents and environmental disasters. None of these problems has an easy solution. Thus, one can expect a high level of contentiousness and conflict to persist in China in the years to come.

One can argue that some cleavages within the new generation of leaders, especially the lack of consensus on major social and economic policies, are so fundamental that compromise will become very difficult, if not impossible. On the international front, China has been surrounded by an extremely unstable and increasingly unpredictable external environment. Besides, the issue of Taiwan and other problems in U.S.-China relations, though no longer imminent, largely remain.

But one can also argue that, as China faces all these daunting challenges both at home and abroad, new Chinese leaders will unite rather than divide. The fear of chaos and the collapse of the regime (as experienced by many ruling parties in other countries during the past decade) may pressure political rivals and factions to cooperate.

What are the implications of all these institutional developments in Chinese elite politics for the United States? I believe that these institutional developments and political trends in China converge with the interests of the United States. The United States wants to see neither the reemergence of a paramount authoritarian Chinese leader nor the rise of a strong Chinese military regime. Chinese history shows that a radical and xenophobic foreign policy often required a charismatic (and paranoid) Chinese leader. None of the front-runners of the fourth generation seems to have such characteristics.

New technocratic leaders in China are not democrats, but they do not have an ideology fundamentally hostile to American values. The Chinese leadership will also become increasingly diversified. More lawyers, entrepreneurs, public intellectuals, and social advocates permeate the upper tiers of power and participate in the political process and discourse. China's road to a more open and liberal state will not be smooth. But its ongoing effort for political institutionalization will most likely lead in that direction. The United States should welcome this development, because global peace and prosperity in the 21st century requires a stable, cooperative, and responsible China.

Chairman D'AMATO. Thank you very much, professor.

And we will move on to Bruce Gilley. Please go ahead, Mr. Gilley.

**STATEMENT OF MR. BRUCE GILLEY, DEPARTMENT OF POLITICS,  
PRINCETON UNIVERSITY**

Mr. GILLEY. Thank you for having me here this morning. Well, perhaps we just heard a thesis and an antithesis, and perhaps I will try to provide a synthesis, if that's possible, and buck the trend of China-watching.

I'm very happy to be here. You have heard already some of the bare-bones outlines of this transition from Willy and from Dr. Li, so I won't repeat them. But I will try to add some context to some of the issues that they raised and maybe ways of thinking about whether this transition has indeed been as smooth as some believe, and whether indeed what we're seeing here is good for Sino-U.S. relations and stability globally, generally.

The first point I would make about the succession, on whether this was a smooth succession or whether this was a succession that was rife with factionalism and instability, generally speaking, this was a smooth succession if one compares it to previous successions in communist China or, indeed, in any Communist Party globally. It is believed that this was the first succession, if it in fact occurs as planned, in a communist regime worldwide that did not require

the death of an incumbent or some degree of palace coup or purge. That itself is indeed a significant achievement for the Chinese Communist Party.

And indeed, there is a new group of leaders, whose age is roughly 10 years younger than the current Standing Committee that is likely to take over. And although there is some doubt about Jiang Zemin and whether he will retire, irrespective of that particular issues, the rest of the leadership is going to be changed, and that can be seen as quite an achievement.

The issue, however, is not so much the absolute improvements in succession stability as much as the improvements relative to what China's people and China's governance requirements demand. That is to say, yes, this was a much smoother succession than the days of Mao, but Mao is not the standard any more for what China needs and what China's people seek in their elite level politics.

My point is that although we can see this succession as being an improvement over past successions, it still was subject to significant instability, as, for example, Jiang Zemin's attempts to remain in power; as, for example, the doling out of all the Standing Committee positions on a more or less factional basis, not a merit basis; as, for example, as Willy mentioned, the use of the military to try to get involved in the last-minute succession and keep Jiang Zemin in power.

There are many aspects of this succession that do not meet the standard of smoothness at any serious level and which, of course, as a result, as we have seen, have caused a great deal of speculation internationally, have led to a great deal of interest—of which this hearing is one example—and have led to concerns among foreign investors about projects being put on hold and respected researchers like Citibank putting out notes to their clients saying, be cautious; don't invest; things are on hold, don't expect to get any business done in China for the next 6 months.

So I tend to think of these things in terms not of absolute improvements but in terms of what is expected in 2002 of the leaders of a large and important country like China. And I think that this succession, although an improvement, failed to meet the standards that would be expected.

The issue we're all trying to address is what does this mean about the state of the CCP and the PRC regime. And my general sense is that while this certainly doesn't suggest there is imminent risk of collapse of the regime, it does suggest that the regime has failed to institutionalize itself, at least to a degree that would provide stability in its rule. The Chinese Communist Party continues to be a party that holds power very tightly and in a very concentrated fashion at the very top. The decisions on this succession were made literally by three people: Jiang Zemin, Li Peng, and Zhu Rongji, who are three senior-most members of the Standing Committee. The other four members of the Standing Committee had virtually no say in the arrangements, nor did the regular members of the Politburo. All of those people are supposed to have a say and are supposed to share in the collective decisions that were made. That didn't happen here.

That matters because, when we think about the future of any communist regime, we need to think about how it responds in

times of crisis. We've been asked here to address the implications of the succession for Sino-U.S. relations, and it's very normal to try to look into the views of the new leadership on domestic problems, on foreign problems. But the history of the Communist Party suggests, in fact, that what they intend to do, and what they think, may actually not be very relevant. What may be more relevant is how they respond in a situation of crisis, to unintended events, to unintended consequences.

And, when we have a leadership where power remains highly concentrated and liable to being either run around or being shifted from one leader to another, it suggests that crisis management and response to crises is not very successful.

What we have in China now, then, although we have had a smoother succession, is a regime much like any late-term authoritarian regime: The power remains concentrated; institutionalization remains weak; and the ability of the political system to respond to crisis is still quite limited.

I think that I'm going to wrap up. The only other issue I would like to address is the issue of particular policies towards the U.S. as far as the fourth generation sees it. This is certainly a new leadership that does not view the United States as a partner. It certainly sees the United States as a competitor, both strategic and economic. This is a leadership, however, that also is inheriting probably the best and strongest Sino-U.S. relationship of any previous leadership. That's largely as a result of the work of Jiang Zemin since 1989.

So, on the one hand, they have a very clear view of the United States as a strategic competitor, indeed, a threat to China and to China's emergence. On the other hand, they view a close relationship with the United States as valuable and as worthwhile for China itself and its own goals. So, while we can expect that this leadership will remain somewhat at arm's length and will not seek to create a new partnership that goes beyond what is established, I think we can also expect them to try as much as possible to maintain stability in Sino-U.S. relations because they see that as in their interests.

[The statement follows:]

PREPARED STATEMENT OF MR. BRUCE GILLEY

Your Honors,

I appreciate the opportunity to address this panel today. China's leadership changes are the subject of worldwide concern. Leadership successions in authoritarian regimes bring with them not only the risk of political instability, but also the possibility of liberalizing change. It is this combination of fear and hope that makes them of such relevance to the world community. China's upcoming handover of power from the so-called "Third Generation" of leaders under Jiang Zemin to the "Fourth Generation" under Hu Jintao is no different. Coming at a time when China is an emerging world power, both economically and politically, the stakes are even higher.

In this brief, I would like to outline four aspects of the succession which I feel are of particular concern to the United States and its allies. My views are informed significantly by a compilation of internal dossiers of the Chinese Communist Party that were used in the succession and will be published in the U.S. later this year.\* My purpose is to help the U.S. and other governments to act in such a way so as to enhance the well-being of China's people, living as they do under a system which does not meet globally accepted minimal standards of freedom or justice.

### 1. *A Smooth Succession*

The handover of the CCP's general secretaryship to Hu Jintao may be the first smooth succession of a communist party that did not require the death or purge of an incumbent. Some have interpreted this as a sign of the CCP's resilience. I disagree with that assessment. The transition was characterized by a last-minute attempt by the retiring Jiang Zemin to prevent a leading liberal, Li Ruihuan, from joining the new leadership and by an allocation of seats on the new Politburo Standing Committee on a strictly factional basis. Merit has increase in importance within the CCP but remains secondary to factional allegiance. Norms of conduct at the elite level remain weak at best. In light of this, the U.S. government should continue to view the CCP as a weak and unstable regime which suffers from the same shortcomings of all non-democratic governments. The U.S. should pursue a long-term policy of engagement with China that thinks beyond the CCP and does not invest excessively in its top leadership. It should continue to look and talk over the heads of the CCP directly to China's people.

### 2. *The role of the military*

Those appearing today have been asked to address the role of the military in the succession. My simple answer is that the role was minimal if not absent entirely. China's military, the People's Liberation Army (PLA), has undergone a radical de-politicization in the past decade which culminated in the 16th congress changeover. There was virtually no military voice in the succession discussions, except to a very small degree on the issue of Jiang Zemin's retirement from the position of chairman of the Central Military Commission. The expected new executive vice chairman of the CMC, Cao Gangchuan, and the expected new Chief of Staff, Guo Boxiong, are both advocates of an increasingly professional and specialized military. The new CCP General Secretary, Hu Jintao, has worried aloud in internal meetings about the de-politicization of the military, because it portends the emergence of a coercive force which will not stand with the Party when it perceives that its own interests and those of the state lie with political change. This process, which potentially helps smooth the way towards democracy, is one which the U.S. should encourage through direct military-to-military exchanges with the PLA.

### 3. *The intentions of the new leaders*

While the new leadership generally shares the authoritarian, if not totalitarian, predilections of the outgoing leadership, they are more open to changes on the margins of the current political system. In particular, some of them favor the expansion of direct elections of government officials — although under closely controlled conditions — as far as the provincial-level. There is an interest in widening the limits of press freedom. On foreign policy, they believe they are in strategic competition with the US but see value in detente for economic and political reasons in terms of China's emergence into world power. They see no reason to loosen controls on Tibet or Xinjiang, but are interested in practical solutions to reduce grievances there. In short, there is the emergence of a soft and modern authoritarianism. By itself, that is not a cause for celebration. But it may lead to some marginal improvement in freedoms and justice for many of China's people. The U.S. should be fully engaged in economic, cultural, local government, welfare, environmental, and judicial areas, among others, to ensure this loosening or search for practical solutions to problems is not left wanting for advice and assistance.

### 4. *The "unintentions" of the new leaders*

Authoritarian regimes the world over have typically found themselves facing a crisis of governance as their societies become more open and empowered by economic change and international opening. That is certainly the case with China today. In such cases, it is the "unintended" policies of the regime that may be more important than their stated policy aims. We should understand their unstated attitudes towards the kinds of unorthodox solutions that might be considered in a domestic political crisis, such as the Tiananmen protests of 1989. Unlike 1989, China's political picture is no longer dominated by conservative party Elders who fought in the civil war for communist rule. At the same time, Fourth Generation is a group of pragmatists with a weak and mainly rhetorical commitment to communism. In case of crisis, new leaders like Zeng Qinghong, Wen Jiabao, Xi Jinping, and Li Changchun will likely be willing to embrace political liberalization in order to stave off popular overthrow. The only viscerally anti-liberal voice in the new leadership is Luo Gan, a protegee of outgoing hard-liner Li Peng. In light of this, the U.S. and its allies must proceed in such a way as to allow political liberalization to be grasped when the inevitable crisis arises, mainly by acting in such a way as to reduce threat per-

ceptions towards China and indicating that it would be a friend and supporter of a liberalizing regime.

In summary, China's new leadership is one which brings significant hope for positive changes in domestic governance and international stability. The U.S. should act so as to encourage those changes, avoiding unnecessary legitimization with the new leadership while also realizing that their decisions and their presence will also be part of the solution. I'd be happy to answer any questions.

\* The Chinese-language book on which the dossiers are based is Zong Hairen, *Disidai* (The Fourth Generation) (Mirror Books), while an English presentation of the materials is Andrew J. Nathan and Bruce Gilley, *China's New Rulers: The Secret Files* (New York Review of Books). A summary of the English book is contained in Andrew J. Nathan and Bruce Gilley, "China's New Rulers," two parts, *New York Review of Books*, September and October 2002.

### **Panel I: Discussion, Questions and Answers**

Chairman D'AMATO. Thank you very much, Mr. Gilley. And thank you all for a range of provocative statements. I'm not sure they're all completely reconcilable. But our job is to kind of plumb that.

I have one introductory question for you. One of the purposes of this hearing is the question of the United States-Chinese relationship, as it seems to be emerging from the transition. Do any of you have a view as to whether the U.S. relationship has played a dominant role in the politics of this succession crisis?

And secondly, on the question of institutionalization and crisis management, there's a certain conflict between the statements on corruption or the rule by a very small group of men versus institutionalization of the decision-making process. What is the tension between institutionalization and corruption?

This commission found in our report that corruption was playing a more important role than we would want in Chinese politics and the Chinese economy today. To the extent that we have some institutionalization, can you see the prospect that the Chinese leadership will get more serious about institutionalizing crisis management with the United States to try to avoid surprises and a lack of any kind of framework for regulating crises?

Any one of you can start. Willy, do you have a sense of that?

Mr. LAM. Yes, thank you. I think relations with the U.S. have paid a big role in the leadership dynamics as well as Beijing's perception of the U.S. in the past year.

First of all, until late last year, when the status of Vice President Hu Jintao, the heir apparent, was in doubt, there was much speculation as to whether the leadership—which is the Communist Party's Leading Group on Foreign Affairs, which is the highest decision-making body on diplomacy within the body—whether that group would approve of his visit to the U.S., even though late last year Washington had put out feelers to Hu Jintao as to whether he wanted to come to the U.S. So they had intense discussions as to whether Hu Jintao should go.

And finally, the decision was made by Jiang Zemin as well as the Leading Group on Foreign Affairs that Hu Jintao should go. So his eventual trip to the U.S., which turned out to be quite successful, was seen by most cadres in China as proof that there were no longer any doubts concerning Hu Jintao's succession. He had been to Washington, he had been to see President George W. Bush and

so forth, so that almost amounted to an imprimatur on Hu Jintao's succession.

The current trip that Jiang Zemin is planning to Crawford, Texas, his last trip to the U.S. as head of state, is also important. It's not a secret that Jiang Zemin regards foreign policy as one of his major legacies, and he does want to end his career on a high note of good relations with the U.S.

So the fact that he is making his very last visit as head of state to the U.S. in October I think has affected, for example, Chinese decisions on a range of bilateral issues, including how Beijing would react on the crucial question of Iraq, if that question comes up before the U.N. Security Council, what Beijing's representatives will do. And I think more or less the conclusion was made that Beijing would abstain from voting, should such a vote involving military action against Iraq take place.

So I think definitely Jiang wants to end his career as China's chief foreign policymaker on that high note of good relations with the U.S.

Concerning some of these institutions, as I briefly alluded to in my paper, I think, at this stage, the new shape and composition of China's foreign policy establishment remains unclear because China's foreign policymaking in the past 10 years has been dominated by two figures, Jiang Zemin and Qian Qichen, who is the vice premier and also the Politburo member in charge of diplomacy. And now that both of them are retiring, it's not clear who might be taking over.

The expectation is that Hu Jintao as the new general secretary as well as Zeng Qinghong, who has been Jiang Zemin's troubleshooter and who, despite his main job being personnel affairs, has, in the past several years, been taking a more and more prominent role in diplomacy, including Asian affairs in Taiwan. It's expected that Hu Jintao and Zeng Qinghong will be playing important roles in foreign decision-making.

However, in terms of the institution, I think they are now trying to work on more regular consultations with the U.S. on, for example, security issues, human rights, proliferation, and so forth. So they are hoping that there will be more institutional mechanisms to ensure that at least difficult problems would be discussed in good time and not leave things until a crisis erupts.

And finally, to address the question of corruption, the relationship between institution and corruption, it's quite sad to note that in spite of the eruption of major corruption scandals in the past few years—for example, the Xiamen smuggling corruption case, which is set to be the worst since 1949—there is still a lack of determination on the part of the top leadership to separate corruption investigations from the party.

So until today, and this will go on for a while, the highest graft-busting organ, the Central Commission for Disciplinary Inspection, will still be vested within the party's central authorities. And there has been, in the past few months, quite a bit of factional infighting as to who will get that position.

And at this stage, it looks like it will be Mr. Luo Gan, who has been the Politburo member in charge of legal affairs for the past

6 years, and who happens to be a protege of Li Peng, the chairman of the National People's Congress.

So until this stage, despite the leadership's apparent determination to institutionalize the handling of corruption, it is still very much tied to factional dynamics, because Luo Gan is faithful to Li Peng. So the expectation is that perhaps he would exercise a high degree of care concerning investigations about certain cases.

So the judicial process, particularly in relation to corruption, is still not free from political influence. And that is still a determination, despite lobbying both by internal groups—that means the cadres, the fourth or fifth generation officials with exposure to the Western institutional norms and so forth—and also foreign governments, who have been pressing the Chinese for the past 10 years to adopt Western political norms. In spite of all this, the legal system, including the mechanisms to fight corruption, are still tied to very much traditional party politics.

Thank you.

Chairman D'AMATO. Thank you.

Professor?

Professor C. LI. Yes, the first question, I would like to see the U.S. role as an engaged observer rather than an actor in the process of succession. Our views or positions sometimes may lead to unintended consequences. We unintentionally help the forces we don't want to help.

And as for the Bush administration, I think it has been doing it exactly right. We started contact with the new generation, Hu Jintao and other younger leaders, because eventually these people will emerge and become the leaders of China. But at the same time, we also express our concern that we want to see a more democratic, more accountable government. At the same time, we also show our respect to Jiang Zemin, during his upcoming trip.

So again, the role is not just an actor, telling them what they should do, but rather to have a discussion or dialogue with Chinese leaders and also state our position that we want to see a more democratic, more institutionalized China, a more accountable government.

So again, as I said earlier, the institutionalization is also in the best interests of the United States.

Now, for the second question about the tension between corruption and institutionalization, it's a very good question. I see it as a paradox again. It's still an ongoing process.

On the one hand, we do see the problems of corruption as both in reality and in people's perception of China. At the same time, we do see some institutional mechanisms to try to curtail this kind of problem. For example, we know that, in the past 2 years, China tried and punished high-ranking officials more than at any time in PRC history. Quite a number of ministers or deputy ministers, governors or deputy governors, are in jail now.

Also, in terms of the selection of the Central Committee members, now they have a new regulation that these candidates should release their personal income information.

The truth is that regarding top leaders, we hear a lot of rumors. I don't know whether they're true or not. Certainly, they're suspected of corruption. But for lower level leaders, at least they

should have a clean public image, because otherwise you will fail in local elections, including provincial elections.

So the tension is still unfolding. I hope that institutional-building will get more momentum. In China, it's still an authoritarian regime, you really cannot eliminate corruption. And, corruption is also a problem in democratic countries to a certain extent. But the thing that's most important is whether institutional mechanisms are there, whether people still hope that institutional mechanisms can curtail this kind of corruption. Otherwise, the country will be in big trouble.

Mr. GILLEY. Yes, I will try to speak briefly.

I agree with Dr. Li that perhaps the most important thing the U.S. can do, and has done quite successfully in this succession, is not to raise threat perceptions in China to, in a sense, recuse itself from the whole succession issue and ensure that U.S. policy is not an issue in the succession, which, indeed, I agree with Dr. Li, would tend to empower those with a harder line toward the U.S. And those people in the new leadership would certainly include, for example, Luo Gan, who is the protege of Li Peng and, as Willy said, is likely to take over internal security and international espionage responsibilities. So certainly, he's not a person who you would want to empower more than he will already be.

And the U.S. has acted well; I recall, for example, one of the best examples, I believe in July, when the Taiwan president made a speech in which he suggested that the Taiwan legislature should consider legislation to govern a possible referendum on Taiwanese independence. That event, especially as I understood in dealing with the source that Dr. Nathan and I worked with, did indeed have the potential to upset the whole succession and to empower Jiang Zemin to remain in office as the Military Commission chairman.

The U.S. administration acted very quickly to offer Beijing assurances that it in no way supported the Taiwan president's plan to try to push through legislation on the referendum. It gave those reassurances to Beijing very quickly, and I think very effectively put out what potentially could have been a very dangerous fire in this succession.

So that certainly is the right approach, and I think it's being followed well.

The issue of institutionalization you'll notice not only splits us here but it splits China observers. And indeed, Professor Nathan and I are deeply divided on this issue. Having worked on the exact same material over several months and having spent many hours interviewing the source that we worked with, we're deeply divided on this. And in fact, our differing views will be published in the *Journal of Democracy* in January, basically saying we reach totally different conclusions from this.

The reason for that is obvious, and in fact, the views aren't as diametrically opposed as all that. Clearly, China has achieved a great degree of institutionalization in the last 10 or 15 years, and there's no doubt about that. On the other hand, that institutionalization is far from complete, and it remains very weak in many areas. So we can talk about the glass half full or the glass half

empty. Clearly, they have made progress, but there is much more progress to be made.

Perhaps the more important issue is where it will lead in the next 5 or 10 years. Can we expect institutionalization to continue to improve as it has over the last 10 years, or is there a danger of another breakdown of institutionalization?

For example, we saw in the years leading up to the Tiananmen protests and in the years immediately after, when the whole institutionalization of the first years of reform was essentially thrown out the window, the designated successors were purged; the elders of the party who were supposed to be retired came back into power; power was immediately reconcentrated right at the top.

The history of the PRC since 1949 suggests a cyclical rather than a linear process of institutionalization. It tends to improve; it tends to break down. And that has been the case ever since 1949.

Now, Dr. Nathan is not here to disagree with me, and he would suggest that what we are seeing now will in fact continue in the next 5 years. My belief is that we will enter a new period of institutional breakdown and that the norms we are seeing now may in fact be a high point of institutionalization.

The issue I'll mention about corruption, as Dr. Li has said, there has been improvement. And the point I will make on this, just as with other issues, is the improvement needs to be seen in light of what China's people expect nowadays, not what they had to put up with 20 years ago.

One of the most salient images for the Chinese people in the 1990s was the sight of two former South Korean presidents being put on trial and having their trials held on national television. And those two ex-presidents were tried for corruption. That event is still remembered and Chinese people will still talk about it, how impressed they were that newly democratic South Korea was able to arrest and try two former presidents for corruption.

That is the expectation and that is the level of expectation in China now. So when there is a failure to prosecute high-level officials in China who are roundly believed to be corrupt—for example, the official who was in charge of Fujian province when the Xiamen smuggling case erupted, which Willy referred to—when there's a failure to prosecute those individuals, those are the cases that are remembered popularly. And those are the cases that make people feel that there is not enough being done, even if there are greater numbers of lower level officials being prosecuted than in the past.

Chairman D'AMATO. Thank you very much.

Commissioner Wessel?

Commissioner WESSEL. Thank you, Mr. Chairman and members of the panel. It's been very interesting.

I'd like to open up a question about what this regime transition is going to mean to the Chinese people. Many of your papers have talked about what it may mean in terms of opening up some political rights, in terms of provincial and other elections opening up. But what will it mean for the economy and the economic rights of many of those people, which has been a huge problem?

In your paper, Mr. Gilley, I guess the New York Times book review, you quote Wen Jiabao on indicating that the expansion of domestic demand is one of his priorities. We anticipate, as I under-

stand it, from demographic information, that over the next 10 years the Chinese workforce will increase by roughly 12 to 13 million workers per year. So over the next decade, China will replicate the entire size of the U.S. workforce, which brings with it tremendous productive capacity. It's hard to see how China will be able to absorb that productive capacity. Will it change from being an export-led growth model to a domestic demand-led growth model, which is I think what the WTO accession approach anticipated?

So I'm trying to understand what this change is going to mean with increasing turmoil in the provinces around the shutting down of state-owned enterprises. How does the new leadership address what could be worker turmoil, and what does this mean for the rights of the people?

Mr. GILLEY. Yes, I think actually there is quite a lot of room for optimism on the issue of economic policy, because I think that economic policy has now, in a sense, been removed from the political arena, to a large extent. There is no ideological division of any real significance now on the value of marketization and of integration with the global trading community. There is some division about what to do with the remaining state enterprises. But what in fact you have in China is a kind of de facto privatization over the last 20 years anyway, so that the state enterprise issue is slowly taking care of itself in terms of having those enterprises privatized.

I think that the reason for the shift toward the domestic demand is really a pragmatic one that they believe is the real source of future economic growth in China. And I think they're right. This is a large continental-size country. It's not a country that can grow through external demand any longer. And it also has tremendous pent-up domestic demand. And what has held up the domestic demand in the past has really been political issues that peasants have been limited from migrating freely from the countryside into cities; housing has been controlled in state hands and has not been privatized. Those types of ideological barriers are now falling away.

And so Wen Jiabao, who will be the next premier, is in a position to focus economic policy on stimulating domestic demand. That will include a lot of urbanization by peasants that will include marketization of housing of remaining state enterprises.

And I think it's through those processes that he hopes to absorb the growing numbers of laborers who are either entering the workforce newly or being laid off by state enterprise reform. And I think it's a strategy that deserves support. And I think its strategy that has a lot of merit.

Professor C. LI. It's a very good question. I want to reject two extreme views or interpretations of the leadership change. On the one hand, some people believe that there will be no change when the new leadership comes into power, which I disagree with, based on the historical record. Each individual, from Mao to Deng to Jiang and probably to Hu, each has his own personality and also policy preferences.

And I also don't want to go with those other extremes, that there will be fundamental changes or a change occurring very quickly and dramatically. I don't think, particularly in this succession, that we will see that, because these fourth generation leaders are really

participants in China's political process. And they are very active in many areas. Some of them are already in the Politburo.

Now, my view is, there will be some important changes in both the economic and political arenas. Now, as we know, Jiang Zemin's power base is from Shanghai. And under his administration, Shanghai developed very rapidly. To a certain extent, people, even inland, liked this kind of development, because Shanghai is the showcase for China's coming of age. But at the same time, it also caused a lot of resentment, because really uneven development became an issue.

Now, look at the new generation; Hu Jintao and Wen Jiabao, both have a solid background in China's inland. For Hu Jintao, he spent 13 years in Gansu, 4 years in Tibet, 3 years in Guizhou, and he frequently visits China's inland.

Now, certain economic policy changes, in terms of more even development and paying more attention to the social safety net to help those whom are called the weaker groups, they all become part of a new agenda.

So what I see is a spillover of wealth to try in an attempt to re-allocate the resources to help those people inland.

Now, we also know that there's a heated discussion, a very dynamic discussion, in China about the political reform. And the inter-party democracy is one of the topics. And both Wen Jiabao and Hu Jintao will engage with the Central Party School to create some kind of a reform program.

Now, their agenda is to first have party democracy and then probably have a general democracy; first have institutionalization, and then have transparency; first have economic development, then have political development; first have local democracy, then expand to the upper level.

But they haven't faced the real challenge. Sooner or later, they need to face the moment when the Chinese intellectuals realize this time is real. Then the challenge will be overwhelming.

So we can see two scenarios. On the one hand, because of this institutional work, they probably can prevent what happened in the other communist countries, the collapse of regimes. They probably can still maintain the Communist Party's rule because of this kind of process. And eventually it will lead to, perhaps, transparency of the factions within the party. Well, we see some evidence, because, again, Zeng Qinghong probably represents the coastal area, Shanghai, and Hu Jintao may represent the interests of the inland and backward region.

But at the same time, again, if the pressure is overwhelming, there can be a major challenge. It largely depends on the capacity, the wisdom of these leaders.

But one thing we should remember is that this generation of leaders grew up during the Cultural Revolution and they went through a lot of difficulties, a lot of hardship that is really beyond the imagination, to a certain extent. I don't think they really believe in communism anymore. And they were very disillusioned by Maoism. Originally they participated, and sincerely believed in Maoism.

So I think this will be probably a most capable, most diversified leadership. But again, the challenges are overwhelming. Unemploy-

ment, economic disparity and environmental degradation, all these challenges are real.

So we don't know the answer, but these are two scenarios.

Mr. LAM. I would just like to add, briefly, two points. One is yes, there is quite a good consensus amongst the various factions or different divisions within the party and the army, and that is to meet the challenge of the 21st century, challenge of China's accession to the World Trade Organization, they have to maintain this high growth rate, what is known as the 7 percent solution. That means at least a 7 percent GDP growth rate year after year.

When Zhu Rongji first became premier about 5 years ago, he saw very clearly that Beijing could not depend on exports to generate that level of growth. So very quickly, he decided on the strategy of trying to stimulate domestic consumption. However, he began quite radical budget deficits as well as fiscal deficit financing as a means to gear up the spending to arrive at this 7 percent growth rate.

And at this stage, after 5 years of deficit financing, the measure of public debt versus GDP, by most Western estimates, is close to 50 percent. And there's been controversy within the government economists this year as to how long they can go on.

However, by the recent statements of Vice Premier Wen Jiabao, it looks like in the first at least 2 or 3 years of this new government, from next March onwards, they still have to resort to deficit financing to maintain the 7 percent growth rate, because the fact of the matter is that they must generate at least, on a yearly basis, 8 to 9 million new jobs, in order to maintain stability.

So this is one problem that the new Wen Jiabao administration has to tackle, how to continue maintaining the country's fiscal stability in the face of deficits, as well as the allied problems of the nonperforming loans and the banks, which have not been solved very satisfactorily over the past decade or so.

The other question I would like to address very briefly. The question of political reform also enters into the picture because quite a large number of cases involving both labor and peasant unrest have to do with the fact that there is no dialogue between the various levels of government and the workers and the peasants, despite China's having to acceded to various international covenants on cultural, labor, and social rights. They have insisted on the fact that Beijing doesn't have to allow nonauthorized, nongovernmental, or non-party-affiliated labor organizations to come into being.

So to this day, there are no nonparty or nonofficial state unions in China. But in the absence of such labor unions, it's very difficult for the government to conduct real dialogues with the workers. And this will only exacerbate the problem of labor unrest, in the absence of a real dialogue between the government and the workers.

The same is true for the farms because, actually, the problem of unemployment is much more serious in the countryside. The lowest estimate is that at least 150 million farmers are either out of work or severely underemployed.

So I think these are the problems that the new administration and Vice Premier Wen Jiabao will have to work with in the coming 5 years.

Thank you.

Commissioner WESSEL. Thank you.

Chairman D'AMATO. Thank you.  
Commissioner Robinson?

Commissioner ROBINSON. Thank you. I join fellow commissioners in very much appreciating your coming today and what I think have been a very illuminating set of discussions thus far.

My principle concern is one that's been raised earlier, which is the notion of potentially flawed crisis management as it pertains to regional challenges that will likely involve the United States directly. There are ingredients, to be sure, on both sides. Mr. Lam talked about the repoliticalization of the PLA by Jiang in an effort to, if you will, secure the kind of role that he is seeking in the transition. The harder line views of Li Peng as one of the three primary players that Mr. Gilley discussed, and how he fared in the course of the transition, particularly through the future role of Luo Gan, which I understand to be, if you will, an individual in which his sentiments are probably most reflected.

On the other hand, you do have the ongoing desire for bilateral stability with the United States. Professor Li talked about the benefits of diversified views at the top, the more collective leadership structure.

But when I look back at the EP-3 incident, there was no small measure of paralysis, delay, even miscalculation that allowed that incident to ramp up into quite a significant crisis in the bilateral relationship, despite greater institutionalization, collective leadership, and the like.

So I'd just like to sound out each of you, if you have a sense in what is an uneven transition, albeit net positive, I think is the consensus, but still uneven, to the point where I was even impressed by the Citibank remark that they were viewing this as not a period when things were going to be moving smartly on the business front.

All that said, if we had another EP-3 equivalent, can you discuss that in the context of the succession as you see it now, and whether we would get crisp, properly configured debate that would lead to less miscalculation rather than, arguably, more?

Mr. GILLEY. I think the short answer is no, you won't. It's not any better. It won't be any better. And it's not an issue of the individuals; it's an issue of the system.

In a system in which power is not institutionally delegated amongst various parts of the government or state apparatus and given to groups that have responsibility to make decisions in their capacity of handling foreign affairs or military issues or whatnot, in a crisis situation, what tends to happen is the power immediately reconcentrates at the top.

That's what happened in the EP-3 case. Nobody anywhere within the Ministry of Foreign Affairs or at any level below the Standing Committee was in a position to do anything or say anything. There have been proposals or there's been talk about the establishment of something called the national security council in China that would deal with crisis decisions like this. The problem, as we understand it, with that proposal, and the reason why it has never really been given any serious consideration, is because it would suffer from exactly the same problems that the current system suffers from, which is that lower level officials appointed to that commis-

sion would simply not have the responsibility, would not be given the power to stop the buck and say, "Here's the decision on this issue."

Anytime a crisis erupts, the power tends to concentrate very rapidly at the top, and you get the sort of paralysis, like you had in the EP-3 days. And I don't see any signs that this leadership succession is going to change that systemic problem.

Mr. LAM. Well, I think Jiang Zemin, to his credit, has made some efforts in this direction, at least in coming up with new institutions or ways and means of deterring military intervention in civilian affairs. I think Jiang Zemin himself suffered personally from some excessive interference by the generals, in terms of the Taiwan Strait crisis in 1995, 1996. At that time, as you might remember, the crisis was caused by former Taiwan President Lee Teng-hui paying a trip to Cornell University in 1995.

At that time, President Jiang Zemin's grip over the top brass was not very solid. And during subsequent internal discussions, Jiang Zemin himself as well as the foreign minister at the time, Qian Qichen, was subject to criticism by the generals. So afterwards, Jiang, to give him credit, he did come up with ways and means to ensure that the generals would not be in a position to wade in too heavily on decision-making concerning foreign or current affairs.

However, I agree with Bruce totally that, at that this stage in time, in spite of the fact that Jiang Zemin and the senior leaders regularly attend lectures on modern management, modern public policy, and so forth, they still do not have a set of institutions to handle foreign policy and, even worse, foreign policy crises.

At this stage, they still have a very lopsided, top-heavy management system. That means a very few secretive bodies, like the Leading Group on Foreign Affairs or Leading Group on Taiwan Affairs, would have major input on foreign policy.

So in the case of, for example, a recent crisis like the NATO bombing of the Chinese embassy in Belgrade in May 1999 or the EP-3 incident, what happened was, a few hours after those happened, the Politburo Standing Committee would convene in emergency session within the Zhongnanhai Party Headquarters. And on a fairly ad hoc basis, the Politburo Standing Committee, as well as Leading Group on Foreign Affairs, would just call up the relevant experts. So they convened an ad hoc emergency session to discuss those issues. That is clearly a lack of institutionalized mechanisms to handle such crises.

That's why, about 2 or 3 years ago, Jiang Zemin, as well as his aides, did propose a national security council kind of institution to try to coordinate different national security agencies, including the army, foreign affairs, internal security, and so forth.

However, the creation of this body itself has been bogged down by bureaucratic infighting. And there is also opposition to this because many cadres fear that if such a body is created, then it's likely that Jiang Zemin would become the chairman. And this would actually torpedo the intended pace of the handover of power, because Jiang Zemin staying on as a national security council chairman would mean that he would be the ultimate arbiter of things. And that would just delay the orderly transition of power.

So institution-building remains very far behind the requirements of China at this stage of coming up with more institutions and processes, particularly to handle hostile situations in the Asia Pacific region.

Now, look at what has happened the past few years. We do see a remarkable trend that the Chinese leaders actually have put their personal tensions or problems really behind the scenes. We do not see much. We only hear rumors and these are not really confirmed.

We even still do not know how many people attended the Beidaihe meeting and what the decision was. We don't even know why or whether they really postponed the 16th Party Congress, which means that the party leaders under this kind of pressure, they probably will unite rather than divide, and be in the same boat.

Now, we heard a lot of things about the military coming back. I do not see this kind evidence. I haven't read the letter that was sent to Jiang Zemin, asking him to remain in power. From how many people? How many military officers? It's also in the military's interest to see a peaceful transition of power.

And again, what I see is a general consensus that the military should not interfere in domestic politics unless there is some real crisis.

So my answer to your question is that the most important question is crisis management. And no one knows the answer.

But if the three forces converge together, yes, the regime will collapse. If not, however, it can survive.

Chairman D'AMATO. Thank you very much.

Commissioner Lewis?

Commissioner LEWIS. Thank you all very much for coming and helping educate us on these subjects.

I'd like to talk about the army and the role of the army. I understand that six of the nine people on the top military commission are scheduled for retirement now also. What are the implications for the Chinese relationship with Taiwan and the Chinese relationship with the United States? There seems to be tensions now between the desire to democratize more and have more western representatives and have more people representing the farmers and get away from Shanghai. And yet, the army seems to be playing a significant role now, with all these letters going out and the politicization of the army and the deification of Jiang Zemin right now.

If in fact there is this tension between the technocrats and the people who are now leaving power, and perhaps if Jiang Zemin stays on, Zhu Rongji and Li Peng may also want to stay on in some role of power. Maybe you could discuss that relationship.

But if the army plays a role in Jiang Zemin staying on, won't this cause the army to have more power in the future than they now have, because if Jiang stays on, then there is a natural corollary for army leaders to stay on who are also slated for retirement? And how can Jiang dismiss the army if he intends to stay on? Is that one of the key questions?

Erik Eckholm wrote this article in the New York Times yesterday: "If you force out all the generals over 70, then why should Jiang himself stay on as supreme military leader?"

So I was wondering if you would discuss those issues of the tensions between the technocrats, the representatives from outside Shanghai and the western provinces, and the army, and what this means for future army budgets and what it means for the relationship of China with the United States and the relationship of China with Taiwan, and also the princelings.

The princelings don't seem to be part of the army, and they don't seem to be part of the technocrats. And if the new people go after the technocrats, what will this mean in terms of the technocrats' benefactors right now?

Mr. GILLEY. Yes, thank you. It's a very good and important question.

The leadership transition in the military, as you say, six of nine are retiring. I think we would probably all agree that our best estimate is that General Cao Gangchuan will take over as the executive vice chairman of the Military Commission. Guo Boxiong will become the new chief of staff. And I believe Xu Caihou will become the minister of defense.

The first two of those, General Cao and General Guo, are both very much technocrats, in the real sense of the word. They are not considered to be allies of any political faction, which is a very important move forward for professionalization in the military. They are both advocates of a continued slimming down of the numbers of the PLA. It now stands at 2.5 million. We understand that General Cao would like to see that number fall to 1.5 million or even 1 million, although maintaining—

Commissioner LEWIS. Creating more unemployment.

Mr. GILLEY. Well, maintaining budget levels at the same or higher, at the same time, in order to facilitate rearmament. But he's envisaging a very different type of military.

So from that standpoint, it's a good sign there is a more technocratic military leadership coming into position.

Their views on foreign policy issues are typical of people in national security positions. They tend to emphasize threats. They tend to emphasize the need for preemptive action to avert threats. Now, that's not unique to China's national security system.

Their views on Taiwan, of course, are quite orthodox. They believe that the PLA should be ready to go to war, if necessary, to recover Taiwan. They do view the U.S. as very much a threat to China's emergence as the preeminent power in Asia, which it would like to be.

At the same time—and we always come back to this idea of their intentions and their unintentional, or how they would react in a situation that they may not have anticipated—there is a lot of evidence that the Chinese military, although it has been employed at the last minute for some political purposes, is truly becoming a depoliticized body. I think we may debate that, but I think there's a lot of evidence that that's the case.

And it is a group that is beginning to view its own corporate interests as separate from those of the party. And indeed, if you comb the bookstores in Beijing, you'll find, interestingly, quite a lot of

books these days written by military people on the need for political reform, on the need for liberalization, because they're viewing their corporate interests as being whatever is necessary to maintain political stability in China. And if liberalization is necessary, then they will be behind liberalization.

In the dossiers that we used to write our book, we found a quote by Hu Jintao where he worries openly about what's called departization of the army. And that, essentially, means an army that is starting to think for itself and is no longer thinking of itself as a sort of personal bodyguard of the Chinese Communist Party.

So that side of the military transition I think is important in ensuring that the military is not necessarily a force for political hard-line views. It may in fact be a force for liberalization in China.

Commissioner LEWIS. And, therefore, the impact on China-Taiwan relations would be moderate or would be extreme?

Mr. GILLEY. It would be moderate, I believe. Although they maintain orthodox views on the Taiwan issue, at the same time, in a situation of crisis where it might become apparent that any action against Taiwan would lead to a response from the outside world to intervene on behalf of Taiwan, and that the repercussions of that may be quite negative domestically in China itself, the PLA may believe and may see three moves ahead on the chessboard that although its views on Taiwan aren't quite orthodox, it might take an enlightened view on that issue.

Commissioner LEWIS. And do you expect wholesale change in the top army leadership?

Mr. GILLEY. Yes.

Commissioner LEWIS. Thank you.

Mr. LAM. Just very quickly, I think Jiang Zemin has been a very underrated politician. Actually, he's a very skillful politician. And I think he has been able, even though when he first became head of the army in 1990, he had no previous military experience. In the course of the past dozen-odd years, he has been able to have a stamp on the top brass. And that's why he has been able to rein in the generals, particularly after the 15th Party Congress, when the two octogenarian generals retired. So Jiang has been able to promote quite a number of his protege to senior positions.

So that's why he has been able to persuade all those generals now on the CMC who are about 70 to retire, even though he himself being 76 might still hang on for a few more years.

And in terms of the distribution of the power to the generals, we expect them to maintain perhaps close to 10 percent of the seats of the Central Committee, and there will be no more than two generals on the Politburo. So in terms of their existing positions in the Politburo, I think it remains unchanged or slightly less than before.

I don't think that at this stage the generals are in a position to influence politics, including Taiwan policy, in a big way. Jiang has been able, in a sense, to buy them off with generous promotions. Jiang has promoted a record number of generals of different grades, and he has given them big perks, big houses, big limousines, and allowed them to keep their secretaries and so forth.

I think there are only two dangers. One is the younger officers, not the generals. The generals are pretty much in Jiang's pocket. But the younger officers, the colonels, or young officers in their 30s,

late 30s, up to late 40s, they have more nationalistic inclinations. And, therefore, should a situation with the U.S. or another part of the world get worse, and should they perceive a threat to China or a cause for saber-rattling, these younger, nationalistic colonels might make some trouble, particularly soon after Hu Jintao takes over. He doesn't have Jiang Zemin's clout. He doesn't have Jiang Zemin's grip over the army. So the colonels are a problem.

The second potential for a new crisis is something that may have nothing to do with foreign affairs or the army. It may have to do with an internal crisis.

For example, if Hu Jintao or Wen Jiabao cannot control the domestic situation, if unemployment were to get much worse, and if there were something which happened in Russia, if there were 200,000, 300,000 miners on the streets, if the leadership cannot handle a domestic crisis, then the temptation comes up for a major foreign venture to divert the attention of the public.

And at that stage, the generals may come up with a "solution" for Taiwan, which would achieve the goal of national reunification and at that same time, more importantly, solve the domestic problem by diverting attention away from something that the new leadership is unable to handle.

So that would be the other possibility for the army perhaps interfering in domestic affairs.

Thanks.

Commissioner LEDEEN. Thank you.

Professor C. LI. I just want to very quickly add two points. I agree with everything that my co-panelists have said.

One thing is Jiang Zemin's tactics in dealing with the military, he used the promotion of the generals. So if we look at the profiles or dossiers of these generals, we find an interesting phenomenon. Those in the top level, the members of the Military Commission, are usually in their late 60s or early 70s, and some of them are even in their early 80s. They are quite old.

But if you look at the next level, the military region commander or commissioner, they are pretty young. But often they retire. How does that happen? Jiang Zemin just makes them three- or four-star generals. This is the highest military career they can achieve. Then after a couple of years, they just move on.

So those at the top are really very reliable, the military officers, and will agree with the party line, in general.

Now, the second point I want to make is that you mentioned the New York Times article. I think my colleague, David Shambaugh is quoted. I very much agree with his assessment.

I think that if Jiang Zemin remains as the chair of the CMC that causes problems, because it sounds like the army will mostly control the party. So my sense is that I agree with him that probably Jiang also will resign that post as well. At the maximum, within 2 years he has to resign, to let the party be the real boss, the leader. Otherwise, it will cause them a very serious structural problem.

Commissioner LEWIS. And the implication to China and Taiwan is what?

Professor C. LI. Well, I agree with what they said. I think that the new leadership probably will follow the same line.

One thing I want to add is that the new leadership under Hu Jintao probably will more frequently play the political card. If you look at the previous leaders, Mao played the military card. Deng Xiaoping played the diplomatic card. Jiang Zemin played the economic card, in dealing with Taiwan. I think the fourth generation leaders probably will play the political card.

One major issue in China-Taiwan relations is that the Taiwanese think that China is an authoritarian regime. "We are a democracy." Now the new leaders say, "Yes, we are moving toward democracy." So it has become a political card they will probably play and, to a certain extent, play effectively.

Commissioner LEWIS. Thank you very much.

Chairman D'AMATO. Commissioner Dreyer?

Co-chairman DREYER. I was very interested in Professor Li and Mr. Lam talking about the growing importance of provincial leaders. It seems to me that there's a very interesting possibility here, and that is, to what extent do provincial leaders represent provincial interests?

Now, we know that the central government went to some efforts to get the Ye family out of Guangdong politics. Ye Xuanping was brought to Beijing to head the People's Political Consultative Conference and so on.

So we know the central government is vigilant, and there's a law of avoidance and so on. But sometimes what you think you can prevent, you can't prevent.

One of your papers, I think it was Professor Li's paper, dealt with: Below the level of the province, you have local leaders emerging. And of course, if you have a so-called "foreigner" as governor or first party secretary, he or she is very dependent on the people below him or her for some kind of guidance and just all-around support.

So to what extent do you see this perhaps developing into a more bargaining relationship of the provinces with the central government, and the implications for the strength for the central government out of that?

I'm sorry. It was a very lengthy question.

Professor C. LI. It's an issue of national integration and regional autonomy. It is a very important issue that is emerging in China today.

And I do think that you're absolutely right, that the central leadership will shuffle the top leaders, as in the Guangdong case and in many other cases, to undermine this kind of localism and very strong economic debate.

At the same time, we also see that these leaders are more concentrated in their own region, and we already see that phenomenon. For example, Hu Angang, distinguished economist in China, he even said a few years ago that one province should have one vote in the Politburo, this kind of idea.

Hu has not been popular in the coastal area, but he is very popular inland. We do see that inland provinces, based on the yearbook of China's Statistical Bureau, there are only 11 in coastal regions, including Beijing, Shanghai, a city. But there are 20 inland provinces.

So these inland provinces have formed a kind of coalition, to a certain extent, during the party election of a Central Committee member or even for a Politburo member. So if you look at previous records, those members of the Shanghai Gang always got the lowest votes.

So that process is very dynamic. It is fascinating in many ways. It does demonstrate the trend that the local leaders have become more important.

These local leaders—China's provinces are very much like European states. One province has over 100 million people.

So they, like the European leaders, are dealing with the problems of social justice policy, implementation, all this kind of thing. So they have limited experience when they move to the top.

So what I'm saying is that probably we will see this kind of bureaucratic politics. Where you stand might depend on where your state is.

But the thing that we will see, with the pattern of the reshuffling, is whether more coastal provincial leaders move inland.

Now, one commissioner just mentioned that princelings usually, actually, do not have much experience in the inland, because they love to go to the coastal regions, rich cities like Qingdao, like Dalian, like Yantai, like Fuzhou. There they can quickly become very successful, because the resources are huge.

So we do see these kinds of tensions. Again, it's an unfolding drama. But on the other hand, there is no attitude even among local leaders that they want to have a real kind of political autonomy. There is no such thing. It's still economic negotiating about getting more resources, human resources, economic resources. It's a healthy development, I think you would agree.

Co-chairman DREYER. Although, first of all, I guess the presence of the princelings does not necessarily mean a country isn't institutionalized. I could swear, in the last election in the United States, I had my choice of two princelings, for example.

And not to mention the latest gubernatorial Democratic primary in the state of New York, that sort of thing.

And I guess you'd also agree that princelings are not necessarily incompetent; I mean, Bo Xilai, et cetera.

But, I'm sorry. Go on.

Mr. LAM. I would just like to add that very likely, because of intensive lobbying by the provincial members of the Central Committee as well as the delegates to the 16th Party Congress, we'll have more Politburo members representing the provinces than last time. The current Politburo were for—but most of them are from the coastal provinces. So it's quite likely they will have more, at least one or two, from the central and western provinces and cities.

The representatives from the central and western provinces do have a lot of grievances against the center. One is, of course, resource allocation, the fact that, particularly in the case of Shanghai, so much in the way of national resources have been lavished on Shanghai and close-by cities in the last 10 years.

The other grievance is WTO because prior to Zhu Rongji's negotiations with the U.S. and EU, there had been no thorough discussions with the local leaders. And after the agreements had been concluded, Zhu and his ministers had a hard time selling the pack-

age to the provincial party secretaries, as well as governors and mayors in the different cities and provinces.

So that's why the regional officials have been crying foul over the fact that they have to suffer the consequences in terms of growing unemployment. There had been no prior consultation, and they're now asking the central government to give them compensation after entering the WTO.

There is also the element of factional dynamics, just because of the "monopoly" of political and economic power by the Shanghai faction for so long. I think for the new crop of leaders, Hu Jintao and Wen Jiabao, who do not come from the Shanghai faction, they have a hard time fighting against the dominant influence of the Shanghai faction. So for their political survival, as well as the strength of their own factions, they are now working very hard to bring in new leaders from the central and western provinces to the top, members of the Communist Youth League faction, as well as the cadres who used to work in the central and western provinces.

But we will see how this plays out, how the Shanghai faction versus the Youth League faction or the cadres from the central and western provinces, how the balance of power will play itself out in the coming 5 years.

Co-chairman DREYER. Yes, because you mentioned before that, actually, despite the fact that there are, let's say, seven people in the Standing Committee, the decisions are made by three. So I suppose you could have a situation in which there are members from the central and western provinces, but they don't really make the decisions?

Mr. LAM. Well, I think Hu Jintao, after 2 or 3 years, assuming that he has consolidated his grip on power, he has to do something to change the situation, because the institution, these seven people on the Politburo Standing Committee, decide everything. Relatively recently, it was basically a Jiang Zemin position to pretty much marginalize the full Politburo, because Jiang Zemin for the past 13 years that he has been in power has systemically marginalized the full Politburo. They don't meet very often, and sometimes when they meet, it's just for rubberstamping the decisions already reached by the Politburo Standing Committee.

Particularly when under Hu Jintao, within the Central Party School, there have been studies done by professors and cadres in the party school attacking precisely this tendency to centralize powers in a handful of people.

So if Hu Jintao succeeds in getting the support of other cadres, it is possible that, after a few years, when perhaps Jiang Zemin's influence becomes less predominant, that Hu Jintao might be able to reform the system of concentrating power in just seven people, and also sometimes just three out of the seven.

Chairman D'AMATO. Thank you.

Commissioner Mulloy?

Commissioner MULLOY. Two years ago, about this time of the year, there was a debate raging in this town on whether we should grant China PNTR and whether they should come into the WTO. Those opposed or concerned felt that the economic relationship between China and the United States was quite unbalanced and that we're running huge and growing trade deficits with China. And

they were concerned about the human rights and the authoritarian rule in China, and the fact that their coming into the WTO would get them more investment and strengthen themselves economically and technologically.

The argument in favor, which won, was that the WTO would help open their market and, two, that it would lead to political liberalization in China, which was in the U.S. national security interest.

Professor Shaomin Li, who is going to be on our next panel, in his testimony that he submitted, he said: "China's economy has been growing rapidly. The prevalent view holds that this economic development will be spontaneously followed by political change in the form of democratization. The international business community, especially executives of multinational corporations doing business in China, clings to this view." And then he says, "While economic liberalization is a necessary precursor for political liberalization, it does not guarantee the latter. History provides copious examples of economic development that did not lead to democracy."

Then I read this article in the Asian Wall Street Journal by Bao Tong, who apparently was the highest-ranking Chinese official in prison for opposing the Tiananmen Square massacre. There are people who say the Three Represents means the party is broadening and it may be a sign of political liberalization. He says, on the contrary, what it does, you are admitting the rich and powerful to the party.

And ends by saying—he calls these people the "red capitalists." He says Chinese communism will begin to be transformed to more democratic tendencies. He says: I believe they're going to be disappointed, for it is like asking a tiger for its skin.

He says that what the red capitalists have done so far, they are simply joining the party to strengthen their own privileges.

In other words, I think he's saying that the party is going to become more authoritarian because you're going to have more people who are benefiting from the one-party rule, and they're going to stay in power. Obviously, that isn't what the premise of what WTO liberalization was.

Mr. Gilley, you mentioned that you and Mr. Nathan had some differing views on where all this was heading. I just wanted to get this panel's view on what Mr. Li said. Is this going to lead to political liberalization or don't we know? Or are there a lot of risks, and what do people see the tendencies to be?

Mr. GILLEY. Factually, let's put it this way: China is now increasingly alone in the world community as a nondemocratic regime. I think, at last count, roughly 125 of the world's 190 countries are democracies that choose their leaders through fair and free elections. And population-wise, I believe China's people are about 60 percent of the total population of the world that cannot choose its own leaders.

So, there are unprecedented pressures on China to move toward democratization right now, quite aside from what its leaders want. And that's a very important thing to keep in mind.

It is very rare in the history of democratization, whether we look at Latin America, Eastern Europe, Southeast Asia, north Asia, it's very rare for democratization to come about through deliberate

moves by those in power. Typically, democratization comes about through a crisis of governance of an authoritarian regime, which may or may not lead to mass protests but which typically leads to a split of the regime, and to a certain group taking over and saying the only way we are going keep the country together and the only way perhaps for our party to stay in power is to begin introducing changes.

The issue of PNTR and the impact of granting it to China can indeed be seen as perhaps strengthening the Communist Party in giving it more resources in being able to buy off the population with economic growth.

At the same time, it introduces a whole range of new resources to Chinese society, whether it's economic or informational or international exposure, which are exactly the kind of resources, which typically around the world have led to democratic breakthroughs.

I agree with Dr. Li Shaomin that the Communist Party as presently constituted has no intention of introducing democratic reforms. And I believe they will do everything in their power to prevent that. On the other hand, history shows that eventually authoritarian regimes face that crisis, and typically they do move to that democratic breakthrough.

Commissioner MULLOY. Professor Li, can you comment on that, please?

Professor C. LI. Yes. Certainly, the issues raised by Dr. Li Shaomin and Bao Tong are legitimate concerns. And certainly it's debatable, when the Party becomes a party of the rich and powerful, whether you can still consider it a Communist Party or if it still has legitimacy. These are real issues.

But having said that, I do believe that economic openness will lead to political liberalization. And the fact that Bao Tong, who was Jiang Zemin's personal secretary, his highest ranking official, could be openly interviewed and frequently appear on BBC, VOA, Radio Free Asia, that itself also tells us that a kind of openness in China has emerged.

And, yes, there's a real worry that the Party has become a representative of the rich and powerful. But at the same time, the other forces criticize this kind of phenomenon. Social advocates, other social groups, entrepreneurs, public intellectuals, they all emerged at the same time, not just the technocrats.

Actually, the peak of the technocrats' rule, I would say, is under Jiang Zemin's regime. Look at the seven members of Politburo's Standing Committee; six are engineers by training. I think in the future, still, the technocrat's dominance will last a while, but the peak has already passed, in my view.

Commissioner MULLOY. Mr. Lam, can you also comment on that?

Mr. LAM. Actually, within the latest so-called Beijing Spring in Beijing, which is a term we use for a brief period of intellectual brainstorming and so forth. Unfortunately, the last one took place quite a while ago. It was in 1998, the year former President Clinton was in China.

During that period, actually 1997, 1998, there was a fair amount of experimentation and brainstorming on new ways of perusing political reform. And one aide to Jiang Zemin, one of the members of Jiang Zemin's personal think tank, did come up with a timetable

for expanding and upgrading the elections. He had a clear-cut timetable for raising the level of elections, which, as you know, have been held in China but only at the village level, from the late 1970s onward.

So his timetable called for incremental expansion and upgrading of elections, from the village to the township to the counties to the small towns, the cities, and the provinces and so forth, so that by perhaps the end of the second decade of the new century, some national level figures would be elected into office by universal suffrage.

So we have had some such proposals by think tank members working for senior leaders coming up every now and then. It's just that most of these proposals have not been adopted by the leadership.

So I don't think it's too farfetched to suggest that the fourth or the fifth generation leadership, perhaps 10 or 20 years down the road, if they see a domestic or an international crisis taking place that cannot be diffused by existing means, then if there is a good consensus within the party that they should maintain one-party rule, maintain the Mandate of Heaven, it's possible that they might resort to some such new ideas, at least to preserve party rule for the near term.

Internal studies have been done saying that even if there were open elections, even if there were multiparty elections in China, there's no question that the Communist Party would win for the first and the second time, but the third and the fourth time is highly questionable.

But at least they will win the first and second time. And some such measures will at least buy the party some time, rather than having a big crisis which would drive the party out into the streets. They would be out of power and perhaps driven into exile immediately.

So some such proposals have been done, but whether that would be adopted I think depends on the fourth and fifth generation, and it depends on the kind of crisis, domestic and foreign, which they have to face.

And my own prediction is that they would indeed come up upon some serious domestic crisis and so forth.

Thank you.

Commissioner MULLOY. Thank you.

Chairman D'AMATO. Thank you very much.

Commissioner Bryen?

Commissioner BRYEN. Thank you, Mr. Chairman. Thank you to the panel for an interesting presentation this morning.

I'm more troubled about this than you are, I think. But I want to come back to what I would like to propose is a major problem.

It seems to me that when we look at the former Soviet Union, one thing that was relatively stable was understanding the chain of command, understanding who was in control of the military, who was in control of the strategic rocket forces, and with a lot of predictability and a lot of regularity.

First of all, in the various crises we have seen in respect to China in the 1990s—I'm more focused on the 1996 one, but even the latest incidents—we see a lot of confusion on the Chinese side

about how to manage crisis and also what looked to me like a lot of bad information reaching the Chinese leaders from their own people, their own military people about the actual situation, for example, what the events were, what the facts were, as just one example.

Now you have a situation where we have a transition of sorts. The current leader is going to stay as head of the Military Commission, which essentially creates a great question as to what is the chain of command in respect to crisis, in respect to nuclear missiles, in respect to overall decision-making in war or peace. It's a big deal to retain the current leader in the position of essentially running the military and then have another leadership come in. It's a conflict waiting to happen, if it hasn't happened already.

I would like to get your thoughts on that, but I'm not very happy about it. And I think it poses some risks that didn't quite come out in your testimony.

I leave this to the panel, and please feel free to respond. Mr. Gilley, do you want to start?

Mr. GILLEY. Yes. I guess it depends on what actually happens with the Military Commission chairmanship. My belief is it will be handed over, and it will be handed over immediately in March of next year when they—there's actually a party and a state military commission, so they tend to hand over the chairmanships at the same time.

And as Dr. Li has said, it would represent a major rupture in Chinese politics if Jiang Zemin were to retain the Military Commission chairmanship, not only because Hu Jintao has been groomed for that position as vice chairman of the Military Commission, but also because Jiang would be sort of the power outside of the Standing Committee of the Politburo, and it would create terrible fluctuations in politics. And I think it's because they know that, that he will indeed hand it over.

The question still arises of who is in charge. Hu Jintao is the new chairman of the Military Commission, someone who has no military experience himself and who has been given virtually no responsibilities on the Military Commission in his four years as vice chairman now.

The only responsibilities he has ever been given as vice chairman of the Military Commission, as we have counted them, are to preside over the ceremony for the Chinese fighter pilot who was killed in the EP-3 incident and to occasionally take pictures with promoted generals. In other words, he's had no power.

So the issue of who is in charge is indeed very important, and also important in the sense that we know there is some instability in the chain of command, even in China's nuclear forces. There is a book that is wending its way through the censorship process right now, written by a former, I believe, Pentagon official who studied China's nuclear forces. June probably knows what book that is.

One of the revelations in that book is that, after 1989, the PLA leadership sought to acquire what are called, I think, PALs.

Commissioner WORTZEL. Positive action links.

Mr. GILLEY. Positive action links, which prevent, I guess, unauthorized use of nuclear forces.

So we know there are chain of command problems in the PLA. But I don't think the leadership succession makes those necessarily any worse. I think a smooth succession even to a weak Military Commission chairmanship is better than a ruptured succession, which creates high-level political instability.

So the solution, in my view, is exchanges with the PLA, increasing transparency, military-to-military exchanges.

Commissioner BRYEN. We've been working on that.

Mr. GILLEY. Yes. But I think that's where the solution lies. The interest of stability in China's chain of command certainly lies with a smooth succession, even to Hu Jintao.

Commissioner BRYEN. I don't think I was asking a question about a smooth succession. I'm really asking about the aftermath of the succession if you have a split in management of the overall military system, and where you don't know who really has responsibility. First of all, it's a huge problem for us. And it's certainly a huge problem for them, and it can get them in war.

Mr. LAM. First of all, just briefly, within the army itself, which is the party's perhaps oldest institution, because you had Mao Tse-tung's Red Army before a lot of the party apparatus came into being, so the army actually in some senses predates the party. So this thing with personalities is very forbidden in the CMC and commission. And as Bruce mentioned, even though Hu Jintao was appointed vice chairman of the CMC in 1990, I think he has been deliberately kept out of the loop because he's not from Jiang Zemin's faction. And Jiang Zemin has been very jealous, guarding his turf, not allowing Hu Jintao to be engaged in policymaking within the army.

But from what I've heard and what has been reported, Hu Jintao and his people are trying to come up with ways and means to ensure a more rational decision-making process in the army. For example, introducing more civilians into the top command, expanding the role of the Defense Ministry, because, as you know, in China, the Ministry of Defense is just basically a public relations setup. It has no real power in decision-making.

So there are plans afoot to try to put more civilians as well as Western-style or at least international norms, as far as the decision-making across the chain of command is concerned.

But Hu Jintao and his colleagues I think of course face a daunting challenge, because from day one, he doesn't enjoy the trust of the generals just because he has had no military experience. And I think it will be a few years until he has won their support, either through hard work or, more likely, through buying them off through big budgets and so forth. With that, some of the generals might agree to go along.

Commissioner BRYEN. Stop there a second. Is there a civilian control over the military in real terms? Or are we just guessing?

Mr. LAM. No, no, no. It's just that in the current CMC structure, you have Jiang Zemin who is a civilian, and then Hu Jintao as the first vice chairman of the commission. So there are two civilians at the top.

But further down in the hierarchy, there is much more civilian participation. But there are proposals being made along this line,

of trying to, in a sense, civilianize the military command, so that they can apply more rational management methods.

Commissioner BRYEN. You see what I'm trying to get at. If there's a conflict among the couple of civilians that you have, such as they are, over who is running this place, and then you have the military left free, you can have endless problems that will rapidly go out of control.

Mr. GILLEY. I think they're aware of that, which is why there is such great momentum and pressure for a complete handover.

Professor C. LI. Well, the question is, who is in charge after the 16th Party Congress? My answer is, yes, Hu is in charge.

The issue and the concern you raise also really was lively debated on Tuesday, last Tuesday, at the Woodrow Wilson Center, of which I'm a fellow. One of the participants at the conference, Lyman Miller from Stanford actually discussed that issue. He said it's like in the United States, some governors running for president; people just talk about foreign experience.

In Hu Jintao's case, he has a lack of foreign experience, lack of connection with military, no experience with the military.

Then Lyman Miller said that it does not bother him at all because our president did not have foreign experience or military experience. He was referring to Bill Clinton.

I think that, relatively speaking, yes, Hu Jintao's lacks this background. But on the other hand, if you look at his personality, his capacity, and his sensitivity—of course, there's still a question mark—but based on what we have read, I think that he could do an equally good job as Jiang Zemin has done. But of course, it also depends on the international environment, to a certain extent.

Commissioner BRYEN. Thank you, Mr. Chairman.

Chairman D'AMATO. Thank you.

Commissioner Becker?

Commissioner BECKER. Thank you, Mr. Chairman. I have just a couple of very quick questions that hopefully won't take too long. I've been keeping my eye on our clock, and I was hoping that we would be able to get to me.

I have a question on domestic security, and specifically labor protests in China. It's becoming increasingly common, either from workers or redundant workers that have been terminated, retirees, to lead large protests. The government has largely responded to these events by arresting the leaders, if they can identify them. And very often, with the protestors themselves, they accommodate them, acquiescing to some of their demands, paying them off, however you want to rationalize that.

But under this fourth generation of leadership that's going to be emerging, this is a very difficult problem for you, because I don't think we're even in agreement as to who this fourth generation of leaders is going to be. But under this fourth generation of leaders, do you expect this kind of heavy-handed activity on the part of the government to repress labor, to arrest their leaders, imprison them, to continue? There's been some hope that it is a move forward toward a more open society, that this would ease up in some form or fashion. I'd like to have your opinion on that.

Let me just lay the second question out. It's on the WTO. The WTO commitment and the driving force behind it was the chair-

man. And he's going to be gone. Do you feel that this same commitment is going to be there, to the WTO and to what China has committed itself? Do you expect to see this continue under this new leadership, in this same form or fashion?

Mr. GILLEY. Let me answer the second question first. The simple answer I think is yes. The WTO commitment and the broader commitment that WTO is part of, which is opening and marketizing the Chinese economy, has a very strong consensus. It may be, in fact, stronger among the new generation than among the outgoing one. Premier Li Peng is gone. He was the only serious sort of old-style Stalinist planner on the outgoing committee. There is nobody of his ilk in the new committee. So I think that seems to be pretty clear.

Handling the labor protests will probably be under the person we've mentioned before, Luo Gan. Luo Gan is Li Peng's protege. He is in charge of the internal security and external intelligence gathering of China.

Luo Gan is what might be called sort of an enlightened autocrat. He does not believe in widening the scope for protests or for allowing protestors to hold negotiations with the government. On the other hand, he also believes in very properly followed procedures for police in protest situations, for courts in dealing with protestors.

And I think what you'll see is certainly not a lessening of repression but perhaps a more transparent, if you want to call it, sense of repression. I mean, a Malaysian- or Singaporean-style repression, where people are charged by the book, according to law, in full public light, and charged with disturbing public order, according to certain provisions, and have a trial. Certainly, the results may be the same, but the process is perhaps not as erratic or arbitrary as it might have been in the past.

Mr. LAM. I think we might see a qualitative change in the labor movement in the coming 20 years. Judging by the latest wave of labor unrest, which took place in the northeast, centering on oil fields last March, for the first time we have seen some inter-provincial linkages amongst the labor organizers. And also for the first time we have seen that the wildcat labor unions have become more active, or the underground labor unions, which the leadership has prohibited and has been trying to stamp out.

So the leadership is very worried. However, I don't see, at this stage, that the fourth generation would adopt basically new approaches. What they will do, I think, is a continuation of the carrot-and-stick approach, the current approach. Basically, that means beefing up the existing social security payouts. And Zhu Rongji just last week said that he will pull out all stops to ensure that, at least in the urban areas, there will be subsistence-level benefits for jobless workers, just perhaps enough to keep them having a subsistence-level livelihood.

At the same time, there was also a series of high-level meetings on job creation. And Zhu Rongji and Wen Jiabao have vowed that no matter what happens to the economy, they will at least create something like 8 million, 9 million new jobs a year. So this is the carrot part of it.

The stick part of it is that, even though as a whole the establishment of the central government has been shrinking—owing to a big

reform effort by Zhu Rongji, where he has been trying to streamline administrative structures and so forth. In terms of recruitment of police and state security people, there has been a dramatic increase in the recruiting of police as well as the paramilitary police.

So the strategy remains that, as far as possible, they will try to adopt a conciliatory approach through offering social security and so forth, and perhaps a partial compensation of the salaries or pension funds for the workers. However, if this partial compensation doesn't work, then I think for the near future, they will still resort to what is known as the proletariat dictatorship to ensure that most of the outbreaks of disorder in the various provinces do not converge into a national crisis.

As for something that I mentioned earlier, and that is the permission to allow workers to form their own trade unions, or for farmers to form similar agrarian unions, which might facilitate dialogue between the authorities on the one hand and the farmers on the other, I don't think there's any possibility of this taking place in the near future.

Professor C. LI. Well, the two questions are interrelated in many ways. The first one about the labor, I think the Chinese government faces a dilemma. On the one hand, it's in their interest to reform the party to make it more accountable. At the same time, in reality, you have to deal with the opposition, this kind of organized labor protests. How will you deal with it?

Right now, they just fire the local leaders, the mayor, the county chief, et cetera, probably even up to the provincial leader. But if there's a national crisis or protest, I don't think they're ready to deal with this kind of problem. It's a major challenge they are going to face, particularly when they move in that direction.

The second question about the globalization and WTO, there is also a lively debate in China among intellectuals about whether China can benefit from WTO globalization. There's some kind of criticism that's emerged from the so-called new left to challenge that kind of U.S.-led globalization.

But I do not see that the leaders share these kinds of views. Unless things become terribly wrong, particularly with the Chinese farmers, if there's a major crisis, I don't think this is going to happen. Why? It's related to China's Cultural Revolution when things were really bad. This generation grew up during that time.

And also, let's face it, China is going to benefit from openness to the international system, unlike some countries that probably aren't going to benefit that much. But China greatly benefits from globalization, openness, during this time.

Now the disparity becomes a major issue. The new leaders, as I described earlier, are sensitive enough to deal with that kind of problem in terms of more even development, establishing a social safety net to help with the so-called inland development. I think this is very much in line with reducing tension or preventing future criticism.

Chairman D'AMATO. Thank you.

Commissioner Wortzel?

Commissioner WORTZEL. Thank you, gentlemen, for your written comments and your remarks here.

I was under the impression that the State Military Commission is simply a paper organization. I've got a few questions, but it (the State Military Commission) has no meaning whatsoever, as far as I'm concerned. I'd like any of your responses to that.

Mr. Lam, I note that the Chinese Communist Party, as you did, describes the 1995 and 1996 use of force against Taiwan as having been caused by Lee Teng-hui. But many of us in the United States, including most of the Members of the Congress who pretty well made sure that Lee Teng-hui got his visa to the United States, and that President Chen Shui-bian has been able to stop through, and that Chen Shui-bian's wife will be honored here tonight at Twin Oaks, feel that Lee Teng-hui was not the cause of the crisis. The cause of the crisis in the Taiwan Strait in 1995 and 1996 was the intransigence of the Chinese Communist Party and their seeming inability to deal with democracy. So I differ with you on that one.

I'm interested in just how much flexibility we can expect any of the new leaders to have in the Communist Party, given that Jiang Zemin, Li Peng, Zhu Rongji, and especially Zhang Wannian will be standing right behind their back looking at what actions new leaders take. Whatever policies the new leaders may prefer or not prefer, how much can they do?

Professor Li, you talked about more democracy in the party. I'd really be interested in hearing how a Marxist-Leninist party that depends on democratic centralism can become more democratic. I'm kind of mystified by that.

And as this process of leadership transition goes on, can we expect at any point that the people who ordered the Tiananmen massacre will be brought to justice? Is the new Communist Party leadership going to be able to deal with what they did to their own people? And how will that affect future large demonstrations?

I think Mr. Lam talked about 300,000 people demonstrating in the streets over jobs, and how the party may divert attention to Taiwan. How are they going to deal with those 300,000 people in the streets? Are they going to be able to deal with an artificially created crisis in the Taiwan Strait and ignore the 300,000 people? Will those 300,000 people in the streets grow to the proportions that it did in 1989? There were a million people marching around Beijing at the order of one element of the Communist Party. So I have questions about that.

Both Mr. Lam and Mr. Gilley talked about young colonels, what's going on in the military, a less party-oriented, more professional, kind of a democratized military. I'd be really interested if either of you could tell me the percentage of officers in the PLA or the leading cadre—you know, the squadron leader, platoon leader level—who are not members of the Communist Youth League or the Communist Party and what that says to a military that is under less party control.

And finally, for any of you, but it's in response to a comment from Mr. Gilley, what current Central Military Commission leader appeared at virtually all of the flood relief events, side by side with military people, working, lifting sandbags? And what did that do for that leader's image, not only among the populace but the civil-military relations, how the military was perceived by the Chinese populace? That leader was Hu Jintao.

Chairman D'AMATO. Which question are you going to take first?

Professor C. LI. First of all, the Military Commission, is it a paper tiger or a real institution? I think it's a real institution. Actually, the Ministry of Defense is the paper organization, because there's no office, no staff. It only has one minister. And the Military Commission is a real institution. It's the only institution where the military and civilian leaders have contact and negotiate. And ultimately, it's the decision-making body.

Commissioner WORTZEL. How does the state Military Commission differ from the party Military Commission?

Professor C. LI. They're the same.

Mr. GILLEY. The state body is on paper only.

Professor C. LI. That's right. Yes.

Now, the question about the contradiction about democracy within the Chinese Communist Party, I mean, we see many contradictions. I mean the Communist Party recruited capitalists into the party. Don't you think that's a contradiction? What about the Chinese policy of being really heavily engaged in the stock market? Is that a contradiction?

Yes, I don't care whether the Chinese Communist Party can survive or not. I don't care at all. What I care about is whether China can avoid chaos, can really produce a political system that is more accountable, more democratic, more liberal. This is the real issue.

The Chinese Communist Party may fail. But what's the alternative? We should find a better way.

As I said earlier, there are two scenarios. One is due to their effort, they're probably completely out of touch, and they'll be forced out. The other scenario is a gradual change; more factions become legitimized and eventually lead to a multiparty system. Of course, we're talking about the near future, but I think this is 20 years down the road.

Now, the question about the military, yes, they tried to gain popularity, a new image, largely because the problem of Tiananmen, as you just mentioned. So the antifraud campaign, and the Chinese government just recently reported on participation in disaster relief, et cetera. So they are trying to change the image of the military.

And at the moment, actually, they're doing it quite successfully because of the professionalization of the military. Also, the military officers receive a good stipend now.

Mr. LAM. Just a brief comment. On the Tiananmen issue, I think even though it's more than 13 years after June 4th, 1989, it's still very much an issue. And actually, one dynamic in the deliberations, which they had on picking the Standing Committee members, as has been reported, Li Peng is said to be opposed to Wen Jiabao becoming prime minister for the obvious reason that in May and June 1989, Wen Jiabao, being at that time the head of the general office of the Central Committee, accompanied Zhao Ziyang to the square to see the students. They were quite close at the time. So Li Peng actually, this time around, has quite vociferously opposed the candidacy of Wen Jiabao to become prime minister.

However, I think his opposition has been shot down, so Wen Jiabao remains the frontrunner.

It's possible, similar to the example I quoted earlier, if there were a domestic crisis, which the new leadership, Hu or Wen Jiabao, could not handle, it's possible that they could throw out Tiananmen Square to divert attention to buy some votes, so to speak, from the public. It's possible that if such a domestic crisis were to occur, then they might make public statements, selectively correcting or revising the official verdict on Tiananmen Square.

I don't think a full-fledged apology is possible, but they will say, for example, that the PLA used excessive force, and so forth, and mistakes were made in the execution of the matter, and that compensation will be paid to victims and their families, and some such process will be put into the new version of the verdict.

Concerning the PLA, it's unfortunate that Jiang Zemin, in order to turn the PLA into a bastion for support for his personal ambitions of staying on for a few more years, we're seeing a repoliticalization of the PLA; in fact, efforts to build a cult of personality around Jiang Zemin, which is reminiscent of the Cultural Revolution, reminiscent of Mao Tse-tung.

As for the mid-ranked officers, the colonels in their late 30s and 40s and so forth, we're not very sure about the exact ideological or personal inclinations, simply because it's very difficult to get information from the public media. But from what has been reported from Beijing through diplomats and personal interviews, they are unhappy with the situation, unhappy with this structure, and they are also very wary of the command structure within the PLA. They are anxious for a faster pace of reform, perhaps through international, professional standards. So this is one thing.

The other aspect, as I mentioned earlier, they tend to be more nationalistic than the older generation of generals, than the generals in their 50s and 60s. Perhaps for no other reason, if there were no national crises, if China lives peacefully and okay for the coming 20 to 30 years, then the status of the army will decline, and it will be more difficult for the army to get a bigger budget.

The impression is that the young turks, the so-called young turks, the younger generals, tend to have more nationalistic inclinations, particularly on Taiwan and the U.S. And this, I would posit, would be one of the problems that Hu Jintao, who is an inexperienced CMC chairman, will have to contend with in the coming 5 years.

Mr. GILLEY. I'll just try to address an issue which they haven't, one of the questions you asked about, democracy in Taiwan and to what extent that is or is not the reason for the intransigency toward Taiwan.

You're right that the fundamental issue that the Communist Party has to deal with in Taiwan is that it is a democracy and that its duly elected leaders do pursue policies, which are those generally supported by its population. And there is a kind of reluctance to see those policies as genuine manifestations of the views of the Taiwan people and a tendency to view developments in Taiwan as very much a kind of strategic policy being pursued by the United States using Taiwan.

However, because of that view, because they view Taiwan as essentially a pawn of the United States, rightly or wrongly, I do think it is still accurate to say 1995, 1996 was prompted by the ac-

tion of the United States in granting Lee Teng-hui a visa, because they view the Taiwan issue entirely as an issue of Sino-U.S. relations. And, therefore, when Chen Shui-bian, for example, was elected as president, that itself did not prompt missile exercises.

Now here's the head of an avowedly separatist party coming to party as the president of Taiwan. They were standoffish and cold, but they did not react the way they did when Lee Teng-hui came to the United States.

I mean, we can argue normatively that it is good and correct for the United States to provide security for Taiwan so that they may pursue their democracy, but I think it's also important to see how the CCP sees it, which is that, were it not for the United States, they could have resolved the Taiwan issue long ago.

Chairman D'AMATO. Thank you very much. And we have one more question.

Commissioner Reinsch?

Commissioner REINSCH. Thank you.

Mr. Gilley, do you think that the institutionalization of the succession issue tends to produce risk-averse leadership?

Mr. GILLEY. Yes, I think it tends to certainly create a more collective leadership, because what institutionalization there has been, at least in this succession, is going to create a new Standing Committee that is fairly equally balanced among the different factions. And, therefore, I think that, as Willy said, in the first 5 years, they're going to be a very cautious leadership.

Commissioner REINSCH. That's a comment about the present situation. I'm asking a more philosophical question. Can it ever be any other way than leading to a risk-averse result?

Mr. GILLEY. Well, I think that in the absence of a strong leader, you get more collective decision-making.

Commissioner REINSCH. Right. Can this process produce a strong leader? That's the question.

Mr. GILLEY. Will it in the future produce a strong leader?

Commissioner REINSCH. No. Can it, just by its nature?

Mr. GILLEY. Well, it can. Jiang Zemin came to power in 1989 with very weak powers. And through processes that were admirable and not admirable, he emerged as a strong leader within the Chinese political context. And I think there's a good reason to believe that Hu Jintao will also pursue policies to enhance his own leadership and be more than just one among equals.

Commissioner REINSCH. Professor Li, do you want to comment on that?

Professor C. LI. I think it's a very good question. Actually, there have been Chinese writings on that subject. They want to have a strong leadership, but not a strongman leader, not strongman politics. They want to make a distinction. Sometimes you have trouble making the distinction. Jiang Zemin is too weak, too soft, in many ways, and this comes from left wing intellectuals who are arguing that.

And that, to a certain extent, is worrisome because it's also likely that Hu Jintao certainly is weak in terms of his power, but he probably will be popular with the Chinese public. To a certain extent, Jiang Zemin has never been popular in China.

I just gave a talk at the Wilson Center. In China, people said that Jiang Zemin is no Michael Jordan. “You want to come back? No way. You’re performance is not that great.”

This is many people’s attitude about it. Jiang Zemin is no Deng Xiaoping, to some Chinese. Particularly in Shanghai, they say he’s no Michael Jordan.

So, again, because he received a lot of criticism, sometimes he has been very cautious. Of course, I should say, he did not make a major mistake, largely because of his power, largely based on coalition building.

Having said that, again, whether Hu Jintao will be a popular leader, what will that lead to? Only time will tell. But the one thing that is clear is that I think Hu Jintao’s power will be restrained by many factors, by his previous experience, by his lack of expertise in foreign affairs and economic affairs, and also the coastal areas will have their own say.

So because of these constraints, particularly in the first few years, I do not think that the scenario that you hypothesize will happen. So in a way, I hope that we will see a strong leadership not become incapable, nor make the country become chaotic, but not be led by the strongman politics.

Commissioner REINSCH. Mr. Lam, do you want to comment on that?

Mr. LAM. Well, by their nature, I think fourth generation leaders, including Hu Jintao and Wen Jiabao, even though they’re well-educated technocrats, they tend to be risk-averse, partly because the transition of power is not very clear. And if you look at the current record of Hu Jintao and Wen Jiabao, neither of them has had the national stature; neither has had some major achievements that could really impose their personality on the nation.

So particularly given the recent troubles in the transition, the fact that Jiang Zemin is said to be trying to hold on to power, and that even after the party congress, he may still be the power behind the throne for 2 or 3 years, all these factors will dispose them to be more risk-averse.

On the other hand, there is another way of looking at it, and that is, particularly in their second term—that means after the 17th Party Congress, from 2007 to 2012, in the second term—it’s possible that because whatever legitimacy that Hu Jintao and Wen Jiabao will have, it will have to come from people. They will have to do something dramatic to win the support of the people, to win legitimacy, as well as to expand the Mandate of Heaven.

So it’s also possible that they might be more inclined to take risks, just to have that public support. For example, even in political reform, because it is this one area in which neither the second or third generation has done anything. So it’s possible that, perhaps as a gamble, when they are having some other problems, they may contemplate taking bigger steps in political reform. There’s a high possibility.

And we have already seen some of these signs emerging. That is, the think tanks under Hu Jintao and Zeng Qinghong—the Central Party School, the Chinese Academy of Science, and so forth—in the past 2 to 3 years have done some quite thought-provoking and quite ambitious papers and proposals for political reform. They

may see this as a possible means, even though it's a gamble, but a possible means to win public support, so that finally they will have legitimacy running the country. Obviously, they don't have legitimacy through the ballot box, nor now do they have legitimacy through very clear-cut blessings being won from the forbearers.

So it's possible that they may be less risk-averse in those areas for those reasons.

Commissioner REINSCH. Thank you. That's a very interesting idea. But since we're running late, I think I'm going to pursue it with the next panel.

Thank you, Mr. Chairman.

Chairman D'AMATO. Thank you very much.

I want to thank all three panelists for your very extensive and valuable testimony. It was a terrific session. And we will be getting around a transcript to all of you, in terms of editing your remarks for purposes of inclusion in another publication by the commission.

And I thank all commissioners. Now, we are running a little bit late. We do have another panel, so I suggest we take a quick 3-minute break, and then we will go ahead and begin our second panel.

Thank you, again. Thank you, Willy, for coming from Hong Kong. Bruce, thank you very much. Professor Li, thank you so much.

[Recess.]

## PANEL II

Chairman D'AMATO. In today's second panel: Prof. Shaomin Li is an associate professor of management at Old Dominion University. Prof Li has written and edited nine books on China's reforms, business environment and industrial development and policies. He is a frequent contributor to professional journals and newspapers like the Wall St. Journal and the New York Times. Dr. Andrew Scobell is Associate Research Professor at the Strategic Studies Institute at the U.S. Army War College and adjunct professor at Dickinson College. He is the co-editor of a number of books on China, the most recent being China's Growing Military Power that is released this month and co-edited by our very own Commissioner Larry Wortzel. We thank these two gentlemen for coming today as well.

I'm going to turn the proceedings over to my co-chairman, Professor Dreyer, who's with us today and ready to go. Professor Dreyer?

### OPENING REMARKS OF CO-CHAIRMAN JUNE TEUFEL DREYER

Co-Chairman DREYER. Thank you, Chairman D'Amato. I am very pleased to co-chair this meeting, and we certainly thank all of you for appearing today. There's been a lot of speculation over the makeup of the future and who will be the new Chinese leaders and what affect they're going to have on institutions whose manner of functioning we are also only dimly aware of.

And this, of course, is because the structure itself remains fundamentally opaque. And in China, as elsewhere where hard information is lacking, gossip rushes in to fill the vacuum. We are agreed that it's critically important to understand how the Chinese Communist Party selects its leadership. This demonstrates what

traits and worldview are crucial to the gaining control of the Communist Party and the Communist government.

Merle Goldman often refers to party/government, and we understand that there are differences between them, but it is the similarities that we notice the most. And one can say that China has changed only if one says that because there isn't a leader among the present group, like Mao Zedong, who can mobilize the Chinese nation to carry out any whim. That is certainly the case; although I imagine if we were able to have Mao himself as a witness, he would probably tear what little hair he had left and say it wasn't really as easy as all of that.

Now, aware that China has changed quite a bit in certain ways, the leadership would have us still believe in the absolute authority of the Communist Party, and despite the fact that most of the population, at least the ones who talk to me, would certainly not espouse that attitude. But nonetheless, they are committed to using the powers of the state to beat back any attempts to move against that authority.

I am particularly pleased to welcome our two experts here today, Professor Li Shaomin, who's Associate Professor of Management at Old Dominion University. And that's a relatively new position for you. We all followed your drama of being accused of spying last year. And some of you may not know that when Professor Li was finally released and he got back to his university, he found that they had docked his pay for excess holidays for the time he spent in prison. True.

Professor S. LI. Yes.

Co-chairman DREYER. Which may tell you something about one country, two systems. And Professor Andrew Scobell, who is a valued member of the Strategic Studies Institute of the Army War College and co-editor with our own commissioner, Dr. Larry Wortzel, of a book. And you are having a book-signing event later this afternoon at the American Enterprise Institute.

Again, Dr. Scobell must be feeling quite exhausted with all of this because only last week, he ran a conference at the Army War College that many of us were privileged to attend. Let me start with Professor Li.

**STATEMENT OF PROFESSOR SHAOMIN LI, OLD DOMINION UNIVERSITY**

Professor S. LI. Thank you, Professor Dreyer. Thank you, Mr. Chairman, and honorable commissioners for having me here today to provide my observations on China's political and economic development.

As Professor Dreyer mentioned, I have studied the political economy of China for many years, since the late 1970s, and worked as an academic and as a director at AT&T in charge of China's market development. So I have both an academic and business perspective.

I think what's really different for me is last year I had the opportunity to conduct what I called a "participatory observation" of China's legal system, you know, for five months.

Which is not always very legal, even by their own definition.

The topic of our panel is “China’s Leadership Succession and Its Implications.” There are a lot of studies. We just had a very insightful and distinguished panel before us to talk about personalities and everything. I will try to take another direction, another perspective by talking about more of a historical macro perspective of U.S.-China relations.

I have three points. The first point is that economic development does not automatically lead to democracy. At least we don’t really know time-wise or how long that would take. There are many examples. I use the example of Japan and Germany before World War II, when both countries had more effective economic revitalization measures that enabled them to have a faster economic growth rate than other Western countries. But that doesn’t really lead them to democracy. That, along with their rising nationalism, leads them to war.

So in China, after 25 years of economic reform, the economy now is about 30 times as large as it was a quarter century ago. But still, it’s ruled under a dictatorial party. And if you look at recent events, we don’t really see any signs of loosening up or improvement in their violation of basic human rights.

But interestingly, at the same time, the Chinese leaders have a compelling desire to develop a better relation with the U.S. and especially to develop some sort of alliance with the U.S. Jiang Zemin has been trying to achieve this very hard, and we can see that really reflected in their foreign policy. However, they do think they can achieve an alliance or close relations with the U.S. without democratization.

The U.S. takes certain values as very fundamental—democracy, rule of law, and human rights. But the mentality of the Chinese leadership is that they think everybody is a pragmatist. Nobody really clings to their principles. History shows that they are wrong. The China-Taiwan-U.S. relationship now to me is very parallel or analogous to the U.S.-Japan-China relations before the World War II.

At that time, Japan invaded China. But then Japan still relied on the U.S. for trade and economic ties. So the message of Japan to the U.S. is, “Well, leave me alone about my invasion of China. Just renew our relations and maintain our economic ties.” Of course, that didn’t really work. The U.S. had a very clear response. “You have to withdraw from China. This is not tolerable. This is against our very principles.” And eventually, that led to Pearl Harbor and war.

But now, China is trying to develop cozy, close relations with the U.S. at the same time, as they want to say, “Leave us alone.” Taiwan is internal. I will reserve the right to use any means and force to take Taiwan if it claims independence.” That’s very similar to the U.S.-Japan relations during World War II. Before the World War II, China is the thorniest point between the U.S. and Japan. And now, Taiwan is perhaps the thorniest point between China and the U.S. as well.

Now, the forthcoming 16th Congress of the CCP and the leadership change offer us an opportunity, both for the Chinese leader and for the U.S. government, that we should clearly indicate that without the process of democratization, it’s impossible for the Chi-

nese leaders to develop close relations with the U.S. Political reform is really the key to U.S.-China relations.

This is my second point. Well, here I think Taiwan's example is interesting. Because Taiwan achieved high economic growth and economic development without democratization until late '80s. Since the early 1980s, the U.S. Congress has passed many resolutions urging Taiwan to democratize. Taiwan was resistant under Chiang Ching-kuo.

The resistance culminated in the assassination of Henry Lu, who was an American citizen, who wrote a Chiang Ching-kuo biography, which Chiang Ching-kuo didn't quite like. So Taiwan sent agents to kill him in '84. This is the trigger event, a crisis that changed Taiwan.

The U.S. strongly condemned and demanded that the Taiwanese officials who were responsible be brought to trial. The message the U.S. sent to Taiwan is very clear: "Democratize or lose our support." So in '87, '88, Taiwan lifted the ban on freedoms of the press and opposition party. And that eventually led to Taiwan's democracy.

My third and last point is that we should pay more attention to institutional change, which when we have questions and answers, I can elaborate more. We have been studying the leadership change and their personalities. But for obvious reasons, such studies are not very productive.

Number one, everything is so secretive, as we know, that we cannot do much better than relying on rumors. We still don't know what is a fact, what is a rumor. And secondly, the political selection process in China makes that all the people who succeed have to conceal their true identities. This makes studying China's leaders even more unproductive.

Another important point is that all the Chinese Communist leaders are opportunists. They do not have any principles. The best example is probably Deng Liqun. Deng Liqun, now is the leader of the conservative camp or the anti-reform camp. But many people probably do not know that he was a vanguard of the reform. He was one of the most open-minded reformists in the late '70s and early '80s. He visited the U.S. He visited Japan, and he went back to China and said, "Well, socialists failed. We have to learn from them."

He became a conservative only after he lost the bid to become the party secretary-general. And the leader of the reform camp. He then had a 180-degree turn and became a conservative leader. So my point is that it's really not very fruitful to study personalities in this sense. We may want to emphasize more on institutional change.

I think one of the most important institutional changes yet to happen is the constitutional reform. Because China's constitution is not really a constitution. It's just a set of by-laws to lead China to socialism. There is no formal ratification process to change it, and it has the so-called "four cardinal principles"—Marxist ideology, party's rule, socialist road, and the people's dictatorship. It doesn't protect private properties as it protects what they call "socialist public properties." With such a "constitution," politically you will

see all the persecutions or violation of human rights. It's all under the four cardinal principles.

And economically, it's just systematic exploiting private property rights and private businesses. Most of the private businesses are banned from many key industries. And they have to pay a fee that is so high that they either have to bribe the officials or go bankrupt. The economic reform is only part of the overall constitutional transition. The party delays constitution reform to buy time to have this temporary stability. But this kind of temporary stability and temporary economic growth will be outweighed by the long-term stagnation, corruption, and the violation of human rights.

So I think that in conclusion, first, people in China have to push for democratization. It doesn't really come automatically following economic growth. Secondly, for a close relation with the U.S., they have to have political reform. And thirdly, I think we should pay greater attention to the constitutional change.

Thank you.[The statement follows:]

PREPARED STATEMENT OF PROFESSOR SHOAMIN LI

Mr. Chairman, Honorable Commissioners, thank you for inviting me to address the Commission today on China's political and economic development.

I have been studying China's development since the late 1970s from both academic and business perspectives. I studied the political economy of China at Peking University in the late 1970s, and later continued my study at Princeton and Harvard, taught the subject at universities in the U.S., China and Hong Kong, and worked as a director at AT&T EastGate Services in charge of China's market development. Last year, the Chinese secret police illegally detained me for five months, allowing me the opportunity to conduct a "participatory observation" of the operation of China's legal system, which is often not very "legal" by their own definition.

The topic of our panel is "China's leadership succession and its implications". Much research and analyses have centered on this topic. However, the efforts of these studies at the micro or personnel level have failed to produce any theoretical or practical knowledge, for reasons I will address subsequently. First I would like to take a macro historical approach to better understand these issues.

*Economic development does not automatically lead to democracy*

China's economy has been growing rapidly and its market has expanded with equal fervor. The prevalent view holds that this economic development will be spontaneously followed by political change in the form of democratization. The international business community, especially executives of multinational corporations doing business in China, clings to this view.

While economic liberalization is a necessary precursor for political liberalization, it does not guarantee the latter. History provides copious examples of economic development that did not lead to democracy.

Before World War II, both Germany and Japan initiated economic revitalization measures and achieved faster economic growth than most other Western countries. For instance, during 1930 and 1935, Japan's industrial output grew 50% while that of Germany grew 9%. In contrast, the industrial output of both France and the United States contracted during the same period. Economic development did not lead to democracy for Japan and Germany; the increased economic power combined with rising nationalism accelerated their march toward war.

In today's China, after 25 years of economic reform, the Chinese economy is about 30 times as large as it was a quarter century ago. This expanded economy, however, is still ruled by a dictatorial party in a non-democratic society. Recent events indicate that the party has been tightening up its political control while concurrently evidencing no systematic improvement in its violations of human rights.

*The whole country is a hostage*

Last month, the Chinese government detained Dr. Wan Yanhai, an AIDS activist in Beijing, for leaking "state secrets." Such an action provoked a strong international outcry. Even the United Nations, historically very restrained in criticizing the Chinese government, issued a statement condemning such an act.

A few weeks ago, it was discovered that Chinese Internet users are now blocked from accessing some popular search engines such as google.com and altavista.com. In fear of being blocked, Yahoo, signed a pledge not to distribute any materials the Chinese government deemed "harmful," as per the government's request.

These events demonstrate the futility of hoping that economic development will automatically beget democracy. Ironically, China's increased market size and the state's monopoly of business opportunities has enriched the government's power. Control of the entrance gate to the Chinese market allows the government to easily press its advantage with the many foreign companies waiting to enter. By clearly dictating the dos and don'ts of foreign companies that want to enter China, such as Yahoo, the message is clear. If you don't play by the Chinese government's rules, someone else will.

This power to hold the entire country hostage gives the Chinese government confidence in violating human rights as it sees fit, for it seems that the multinational companies and even many foreign governments cannot afford to criticize China too much lest they lose market entry there.

*Political reform is the key to U.S.-China relations*

At the same time, the Chinese leaders have a compelling desire to become a full-fledged member of the international community and especially to form some sort of an alliance with the U.S. It is a fair statement to say that they are striving to achieve this. The fact that Chinese president Jiang Zemin is paying another visit to this country supports this argument.

Certainly, a positive U.S.-China relationship is beneficial not only to both countries, but also to the world. However, the Chinese leaders seem to have missed the point that without democratization any alliance or close relation with the U.S. is impossible.

The United States upholds a set of core political principles embodied in the Declaration of Independence and the Constitution; among them are liberty, democracy, and the rule of law.

The Chinese leaders are pragmatic and don't believe in such principles. Principles to them are merely means to rule. They tend to view the U.S. government as fellow pragmatists who will conveniently discard principles as needed. This misperception has led Chinese leaders to believe that China, under totalitarian rule, can build close relations or even an alliance with the U.S. as long as China provides assistance in the war against terrorism. This misperception has served as the compass guiding the Chinese government's policy. The Chinese government's stand on the Taiwan issue provides further evidence.

The Chinese government states that it will use force to overtake Taiwan if the island proclaims its independence. This violates the fundamental democratic principle of self-determination. To understand this issue, we can take a look at U.S.-Japan-China relations before World War II.

In the early 1930s, Japan invaded China. This action contradicted the principles of the U.S. and fueled both its strong condemnation of Japan's action and its demand for the Japanese to withdraw. At that time Japan was heavily relying on the U.S. for trade and desperately wanted to continue its economic ties with the U.S. Conversely, Japan wanted freedom of action in its aggression in China. China remained the thorniest issue between the U.S. and Japan, an issue that eventually led to the Pearl Harbor attack and war.

Today's U.S.-China-Taiwan relations resemble U.S.-Japan-China relations of the World War II era. The current regime in China wants to develop a closer relationship with the U.S. while at the same time advocating overtaking of Taiwan by any means. The U.S. government should clearly enunciate that as long as China has the intention to use force against Taiwan, a close U.S.-China relationship is not possible. This is simply a restatement of the U.S. government's position on Japan's aggression in China during the 1930s.

The forthcoming 16th congress of the Chinese Communist Party and the prospect of leadership succession offer a timely opportunity for the new leadership to realize that democratization is the key to the future U.S.-China relations. The U.S. should use this opportunity to clearly convey to both the current and prospective Chinese leadership that without genuine political reform, U.S.-China relations cannot be improved.

Taiwan's democratization experience provides at least one case study on political reform for the Chinese leadership. Before the late 1980s, Taiwan achieved rapid economic growth without democracy. The Kuomintang's rule was authoritarian and often brought harsh criticisms from the international community, especially from the U.S. Since the early 1980s, the U.S. Congress had been making a series of resolutions urging the authoritarian Kuomintang government in Taiwan to take steps

to implement democracy. For example, in 1982 and 1983 the Congress passed resolutions expressing the U.S.'s concern about martial law in Taiwan. In 1984 and 1985, the Congress passed resolutions concerning the need to achieve full democracy in Taiwan.

The Kuomintang under Chiang Ching-kuo's leadership was resistant to these calls for democracy. This resistance culminated in Henry Liu's assassination. In 1984, the Taiwanese government had sent agents to the U.S. to assassinate Henry Liu, who wrote a biography of Chiang Ching-kuo that Chiang did not like. The assassination provoked an international outcry. The U.S. Congress passed resolutions that strongly condemned the killing and demanded that the Taiwanese officials responsible be brought to trial. In 1987, the Congress passed resolutions concerning representative government, political parties, and freedom of expression on Taiwan. The message from the U.S. was very clear: democratize or lose U.S. support. These pressures from the U.S., along with Taiwan's internal forces for change, eventually led to the birth of opposition parties and free press in Taiwan in the late 1980s, paving the way for Taiwan's democratization.

The histories of Taiwan's democratization and the U.S.-Japan relations before and after World War II clearly show that democracy is the key for long-term positive and stable relations between any country and the U.S.

#### *The unpredictable nature of leadership change*

The coming of the CCP's 16th congress and the secretive succession game have left China observers to busily guess and decipher what is going on behind the closed doors in Beijing. Academic studies, reports, and analyses abound. However, several factors make these efforts unproductive. First, without clear rules, the succession game is highly uncertain and chaotic, thus rendering all systemic studies impossible. Second, in contrast to the democratic political process, in the Chinese political selection process one must conceal one's true identity in order to be selected. All these factors make the studying of personalities of potential leaders and predicting the succession of the CCP almost useless. Most importantly, the personnel selection process of the CCP makes all survivors opportunists. Grouping them by their ideological leaning is futile. Take the case of Deng Liqun, the leader of the conservative camp. Paradoxically, Deng Liqun was one of the most open-minded reformists in the late 1970s. After he visited the U.S. and Japan during that time, he acknowledged that socialism had lost to capitalism and advocated the abandonment of socialism in China. His open-minded views and reform efforts won him high positions in the party. But, after losing his bid to be the leader of the reform camp, he became a poster child for political opportunism by making a 180-degree turn to become the leader of the conservative camp.

#### *China's much needed constitutional reform*

Thus I tend to pay more attention to the institutional changes that are ongoing in China's political and economic systems. These changes have patterns and are more fundamental. One of the most important institutional changes yet to take place is the reform of China's constitution.

In China, where the constitution is not taken seriously, four constitutions were produced in a short span of 28 years. The first one, written in 1954, paved the way for abolishing private property rights and the dictatorship of the Chinese Communist Party (CCP) after it seized power in 1949. In 1975, the second constitution was written, reflecting the extreme radical ideology of the Cultural Revolution. In 1976, Mao Zedong died and the third constitution was written two years later. In 1982, the fourth constitution was written. Frequent rewriting of the constitution, as one might imagine, does not cultivate the people's respect for it.

China's current constitution has the following characteristics. It was made without any opposition views and no checks and balances of power. It is more like a set of by-laws of "Chinese Socialism, Inc." There is no formal ratification process for the constitution. Instead the power of the state comes from communist ideology. It proclaims that China must follow the "four cardinal principles" - Marxist ideology, CCP rule, people's dictatorship, and socialist road. In sum, the constitution gives the CCP unlimited power to pursue its goal to build a socialist state.

Under such a constitution, the CCP pursues its own agenda in the name of public interests. In the economic domain, the party has been steadfastly exploiting private businesses and property. From the 1950s to the 1970s, the method was outright confiscation. The current constitution states that "socialist public property is inviolable," without conferring the same status to private properties. Private businesses are banned from many key industries such as telecom, aviation, post, and international trade, and are restricted from many other industries. Governmental fees imposed on private businesses are so high that the latter must either evade the fees

by bribery or go bankrupt. Corruption is the incentive for party officials to carry out dual-tracked economic reform, in which market forces are introduced and party privileges are maintained. The CCP is the rule-maker, the judge, as well as the biggest player in the economy.

In the political domain, persecution of dissidents, suppression of media freedoms, and other violations of basic human rights are done in the name of state security, which is ultimately sanctioned by the “four cardinal principles” in the constitution. These “four cardinal principles” directly contradict many of the citizen rights given in the constitution. When they are in conflict, the cardinal principles override and the citizen rights are easily swept away. Examples of such conflicts and violations abound. For example, last year the CCP banned people from using satellite dishes to watch foreign TV programs. The ban is in direct violation of each citizen’s right of free and private communication mentioned in the constitution. The CCP routinely violates each citizen’s right to organize by arresting and severely punishing people who try to form any political groups. All this is done under the “four cardinal principles.” “Rule of law” under the state opportunism of the CCP has become “rule by law.” Laws exist merely to aid the party in protecting its monopoly.

With economic development and opening up, the Chinese people will realize the unconstitutional nature of the constitution and demand constitutional reform. Thus economic reform should be viewed as merely a part of the constitutional transition. The delay of such a transition has enabled the CCP to maintain a temporary stability, at the cost of institutionalizing corruption and suppression of human rights. The long-term costs resulting from the lack of constitutional reform may outweigh the short-term gains in economic performance.

One of the most important steps in reforming the constitution is to repudiate the “four cardinal principles.” When Deng Xiaoping instituted the “four principles,” all four were important to him and to his generation. To Jiang Zemin, the most crucial “cardinal principle” is the one-party rule, followed in importance by the people’s dictatorship, which is synonymous with party rule. The remaining two, namely Marxist ideology and the socialist road, are increasingly less important to his generation. Some China observers argue that the new generation of leaders will be better educated, younger (not much though), more technocratic and pragmatic, and have a broader world view. Thus these observers put a great significance to the upcoming leadership change. But I think the key questions are: What “cardinal principles” will the new leadership cling to? Will they give up the one-party rule? No dictatorial party will relinquish its rule unless it faces a strong force of change that can’t be suppressed.

When the pressure for constitutional change is too strong to be suppressed, the change may not be very peaceful. This scenario is not an exaggeration given the fact that the Chinese society does not have a long and deep constitutional tradition or a culture that respects law and order. Therefore, in addition to focusing on leadership successions and some concrete issues, such as trade and human rights, we should pay more attention to the constitutional transition in China.

In conclusion, we should convey a clear message to both the U.S. and Chinese governments that, first, China’s economic development does not automatically lead to democratization. Second, democratization is the key to a long-term close relationship between the two countries. Third, we should pay greater attention to the much needed constitutional reform in China and make our best effort to facilitate such a reform.

Thank you for this opportunity to share my observations on China with you today.

Co-chairman DREYER. Thank you very much. Dr. Scobell?

**STATEMENT OF DR. ANDREW SCOBELL, STRATEGIC STUDIES INSTITUTE, U.S. ARMY WAR COLLEGE**

Dr. SCOBELL. I was going to say good morning, but I just looked at my watch. I have to say good afternoon.

I want to thank members of the commission for inviting me here to testify today. I just want to issue a quick disclaimer. Any of the remarks that I make today are my own. They don’t represent the views of the U.S. government, the Department of Defense, or the U.S. Army.

I’d like to elaborate on a few of the themes that I address in my written comments. With the exception of Jiang Zemin, I don’t focus on personalities. Instead, I try and look at the overall picture. But

obviously, I do discuss Jiang Zemin, and I think perhaps the title of my testimony should be shortened to “The Twilight of Jiang Zemin.” And in fact, I think the key question is how long that twilight is going to last? It could be a matter of months or it could be a matter of years.

The Commission has spent a lot of time this morning talking or speculating about the upcoming party congress and the turnover of leaders and so on. And of course, we’ve touched on how that might affect the People’s Liberation Army. We tend to expect the process to be relatively smooth and the outcome preordained. But surprises are always possible.

And if studying China for a few decades now teaches me anything, it’s expect the unexpected, or at least be prepared for the unexpected. At the present, of course, one can only engage in informed speculation. But one thing I can say without fear of being wrong—if this leadership transition occurs, it will be an historic event. There has never been a peaceful, orderly, crisis-free power transition in the People’s Republic of China.

Previous transitions have either been aborted or taken place in a climate of uncertainty and crisis. The imminent leadership succession is being stage-managed by Jiang Zemin, and his prestige will be enhanced if this succession proceeds more or less according to plan. In fact, he will have succeeded where Mao failed and Deng Xiaoping had tremendous difficulty.

Even if this process proceeds peacefully, orderly, and largely according to plan, it doesn’t mean the complete disappearance of Jiang Zemin. Jiang will remain on the scene. While he will very likely step down from his position as party leader in November and retire as president of the People’s Republic next spring. Jiang will continue to hold significant power and wield it from behind the scenes.

I think he is unlikely to step down as chairman of the Central Military Commission, and he’s likely to stay on for at least a few more months if not years. But I don’t necessarily think that Jiang Zemin’s continued presence is a bad thing. He could provide important continuity in two significant respects. One in China’s foreign policy, and the other is civil-military relations.

In foreign policy, Jiang can claim considerable experience, if not expertise. And his influence is particularly vital to ensure continued cordial relations with the United States. Again, it’s no mere coincidence that Jiang will be visiting Crawford, Texas, next month as a guest of President Bush. Jiang has staked his reputation on his role as an elder statesman and his ability to manage China’s stormy relationship with the United States. An extended Jiang Zemin twilight will increase the likelihood that China and the United States will be able to overcome the inevitable tensions and crises that will periodically emerge.

Jiang’s continued presence will also be a stabilizing influence in an era of transition in Chinese civil-military relations. While the abstract principle of civil control of the military goes unchallenged, in practice it has yet to be institutionalized in China. This principle really continues to rest on the strong personal relationships that have existed between paramount leaders—Mao, Deng, and now Jiang Zemin—and the top leaders of the armed forces.

The military credentials of Mao and Deng were cemented by their participation in the legendary Long March and decades of involvement in defense and strategic matters. Jiang had to play catch-up. But he had the advantages of being a quick study and the built-in prestige of being Deng's chosen successor.

The PLA leadership certainly is not opposed to Jiang's putative successor, Hu Jintao. But neither can it be characterized as being overly enthusiastic. In many ways, Hu remains largely an unknown quantity to China's generals, much as he remains an unknown quantity to many Americans. Of course, as was already noted, Hu has been on the Central Military Commission for three years now, but he has largely operated in Jiang's shadow.

One thing is for certain. Hu doesn't have a strong power base in the military. Again, this is not an insurmountable obstacle. Jiang didn't have much in the way of military credentials when he was anointed by Deng to succeed him. What will be important is that Jiang, by staying on the Central Military Commission, can ease Hu's transition in this crucial dimension for any paramount leader-aspirant in Communist China.

And for the next five to 10 years, Jiang Zemin aspires to be senior minister without portfolio, functioning much in the same way as the former prime minister of Singapore, Mr. Lee Kuan Yew, does today in that city-state.

Indeed, it is interesting to note a reported conversation that Jiang Zemin had with Lee Kuan Yew earlier this month. Jiang Zemin reportedly told Lee Kuan Yew, "Although you no longer take up the highest post, you're still very busy. People of our age should keep their brains working ceaselessly."

To wrap up, I think Jiang's twilight is likely to last years, not months. Thank you.

[The statement follows:]

PREPARED STATEMENT OF DR. ANDREW SCOBELL

Mr. Chairman, China's top leader Jiang Zemin is scheduled to resign from his post as General Secretary of the Chinese Communist Party (CCP) at the 16th Party Congress in November 2002. Next spring, he is supposed to step down as China's president during the country's 10th National People's Congress. If leadership can be smoothly transferred from Jiang to his designated successor, Hu Jintao, it will mark the first routine power transition without the impetus of a political crisis or the death of a top leader in the history of the People's Republic of China (PRC).[1]

When one examines leadership succession in the PRC it is worthwhile to consider both the process of political succession and the nature of China's current paramount leader Jiang Zemin. A fundamental aspect of the looming leadership transition in China is Jiang's fate: Will he leave quietly after presiding over the 16th Party Congress in November? There are four possible scenarios.

First, Jiang could actually retire. Jiang could quickly vacate all his official State, Party, and military positions and fade away. I view this scenario as extremely unlikely.

Second, Jiang could be ousted, possibly in a military coup d'etat. His removal is certainly possible, in the event of a major national crisis, but I see this as an unlikely scenario. Still coups, both successful and unsuccessful, have occurred in post-1949 China. Significantly, the two I have identified occurred when "leadership transition arrangements were in flux." [2]

Third, Jiang could die while in power of natural causes. While this is certainly possible, the status of his health appears extremely good. He is a slightly overweight septuagenarian who enjoys eating but exercises regularly—swimming is his preferred activity.

Fourth, Jiang could stay in power for another five to ten years. Jiang is most reluctant to retire and will do his utmost to remain in a position of power and influence.

I argue that the most likely scenario is that Jiang Zemin stays in power for the rest of this decade, although he will probably step down from formal positions of power and step back from the day-to-day duties of administering China's party-state. In my view, Jiang will not willingly completely give up power and will continue to exert considerable influence from behind the scenes for the foreseeable future. There are at least five reasons for this prediction. The first three have to do with the nature of the succession process in communist China, while the second two are related to the personal predilections of the man himself.

#### SUCCESSION PROCESS

##### *(1) Role of the Paramount Leader*

In Chinese communist politics political power tends to be concentrated not in institutions but in individuals. The most powerful individual is usually referred to as the paramount political leader. This person does not necessarily hold a formal position of authority, but de facto, the individual exerts considerable power and influence perhaps not over day-to-day decisions, but over all major foreign and domestic policymaking. Mao exerted such control and Deng exerted similar control in their respective tenures. While Jiang is not as powerful or unchallenged as these predecessors he nevertheless holds substantial power. Moreover, Jiang's position is unlikely to be directly challenged. The position of paramount leader is sacrosanct and tends to be dependent on the health and longevity of the leader. While paramount leaders tend to be less active and involved in day-to-day political decision making, they remain key making general policy decisions and intervening in crises or controversies. Here it is important to make a distinction between first and second line leadership in Chinese communist politics. Paramount leaders and members of their generation of leadership tend not to walk away from power completely. Rather, they step back from the "first line" to a position of elder statesman in the "second line."<sup>[3]</sup> They become in a sense a minister without portfolio akin to the current status of Singapore's Lee Kuan Yew.

It is unlikely that Jiang's continued preeminence will be challenged directly because no one wants to risk rocking the boat by taking on the incumbent. While policies can be questioned and personnel selections rejected (both have happened in Jiang's China), the paramount leader remains largely unassailable. The pervasive fear of chaos or upheaval among China's leaders is such that no individual or faction is likely to want to try anything that might signal elite instability and trigger unrest. No one wants to risk adversely impacting the economy by launching a political assault. And Jiang, just like Mao and Deng, has proved adept at finding scapegoats for policy failures and defecting blame for mistakes.

##### *(2) Process and Precedent*

The leadership transfer mechanism in the PRC boils down to successor selection by incumbent. To be blunt: the paramount leader chooses his own heir presumptive. This, incidentally, has tended to be the norm in communist regimes.<sup>[4]</sup> There is precedent in China: Mao did it and Deng followed the same process. But the process can be long, tortuous, and problematic. Mao found it difficult to decide on a successor and considered Liu Shaoqi, Lin Biao, Deng Xiaoping, and Zhou Enlai before ultimately settling on the lackluster Hua Guofeng. Deng's selections, Hu Yaobang and Zhao Ziyang, fell from favor. Serving as a designated successor is tricky business, fraught with pitfalls. The challenge to please one's patron is the art of quiet competence devoid of controversy all accomplished without overshadowing or embarrassing the paramount leader. Once the paramount leader selects his successor he then retires to the "second line" from active day-to-day "first line" leadership. He still attends key meetings and reviews all major documents. In a real sense he is there looking over the shoulder of his protege.

A coup or ouster would be almost unthinkable except in the most extreme conditions. Only once has there been a successful coup d'etat in post-1949 China and only once has a paramount leader been toppled peacefully from power. Significantly both occurred in the tumultuous 1970s at the tail end of the disastrous Cultural Revolution. The coup occurred with the arrest of the so-called Gang of Four in October 1976 while the peaceful ouster of Hua Guofeng several years later certainly qualifies as the dethroning of Mao's putative successor.<sup>[5]</sup> These unusual events occurred in times of great crisis and deep polarization in Chinese domestic politics. Moreover, the targets of these ousters were either so disliked or lacking in stature that they

made easy targets. Furthermore, they enjoyed either outright hostility with the People's Liberation Army or lukewarm support.

(3) *People's Liberation Army*

Officially, the PLA owes its full loyalty and absolute obedience to the Chinese Communist Party and this is inviolable.[6] As Mao Zedong observed: "The Party commands the gun and the gun can never be allowed to command the Party." The concept of civilian control of the military is deeply ingrained in communist China but significantly was never institutionalized. The concept has tended to rest upon the bonds of personal allegiance between senior PLA leaders and the paramount leader (e.g. Mao, Deng or Jiang). Both of the first two preeminent leaders held the position of chairman of the Central Military Commission (CMC) for decades and had considerable built in prestige and credibility with PLA leaders before they assumed the position. The longevity of each tended to ensure stability and continuity in civil-military relations. Jiang himself officially assumed the position in late 1989 when Deng formally resigned from the post. Back in 1989 Jiang had no real standing among the top brass except that he was Deng's anointed successor. Jiang, unlike Mao or Deng could claim no military experience or expertise. Jiang made up for this with all he has done since then—skillfully managing to win the allegiance of military leaders.

Jiang Zemin moved adroitly to establish his authority in the PLA. As a consummate bureaucrat he quickly grasped the importance of managing the military nomenklatura—at the dawn of the 21st Century the top ranks of the PLA are filled with men Jiang has appointed and promoted.[7] Jiang moved to exercise the power of the purse more slowly. The commercial ventures of the PLA were allowed to go unchecked for almost two decades and the negative impact of this became more and more evident as the 1990s progressed. Finally, Jiang acted, primarily nudged by the rampant corruption that he believed was depriving the party-state of much needed revenues.[8] Moreover, corruption in the armed forces was of even greater concern because it is viewed as an "early symptom of the erosion of combat readiness and party control." [9] Nevertheless, grasping the powers of appointment and the purse do not a civilian controlled military make.

The mid-1998 decision to divest the PLA of its commercial holdings was not as controversial as it might have appeared and was not the civil-military contest that some depicted. It reflected a consensus decision by military and party leaders to control corruption and strengthen military readiness. Jiang's greatest crisis was over Taiwan policy in 1995, but he weathered it with flying colors. With Deng out of the picture because of illness, Jiang forged a consensus hard line policy on Taiwan, notably saber rattling in late 1995 and early 1996. Foreign Minister Qian Qichen took the brunt of criticism for assuring his colleagues that he had been promised by Secretary of State Warren Christopher that the United States would never grant Taiwan President Lee Teng-hui a visa to visit the United States and then having to eat crow when this happened. The missile tests and air, sea and amphibious exercises constituted a "baptism of fire" for Jiang in the eyes of China's soldiers.[10] He won them over as a leader who would not back down from a humiliation and was prepared to flex military muscles when necessary.

It is arguably helpful for his putative successor, Hu Jintao, that Jiang stay on for some years in the top military position much as Deng did even after he had stepped back to the second line in the mid-1980s. The current PLA leadership owes its political loyalty to the abstract entity of the CCP and its personal allegiance to Jiang Zemin, who presently holds the troika of PRC President, CCP General Secretary, and CMC Chairman. While the personal dimension may be quite firm, the political link is less ironclad.[11]

There is still weak institutional civilian control of the military in China on the eve of the 16th Party Congress. On the CCP side the tripod of party committees, the political commissar system, and the political work committees do ensure party control of the PLA for the moment.[12] However, if the past is any guide, political officers will tend to adopt the military's perspective instead of representing the party's interests.[13] Moreover, political indoctrination of the military in the 1990s takes an instrumental form that stresses blind loyalty to the party without articulating a theoretical underpinning or rationale.[14] The major organ through which actual party control is exercised is the CMC which, although chaired by Jiang with Hu Jintao as vice chairman, is dominated by soldiers.

And the state apparatus for civilian control of the military is very weakly institutionalized. While there is formally both a party and a state CMC, they are one and the same—the point is made clearly by the constant reference simply to the Zhongyong Junwei and omitting the prefix "Party" or "State" all together.[15] Furthermore, the Ministry of National Defense serves purely ceremonial/diplomatic and

coordinating functions-it is a place to greet foreign military delegations, etc.[16] It is significant that in key pieces of legislation such as the 1982 Constitution of the People's Republic of China and the National Defense Law of 1997 there is no mention made of the Ministry of National Defense or Minister of National Defense.[17]

There appears to be an unwritten pact that the PLA supports the CCP and in exchange the CCP gives the PLA autonomy over military affairs and appropriate levels of funding and guidance.[18] Thus, Jiang Zemin has stressed the high-tech nature of warfighting and sought to provide the PLA with sufficient resources to develop accordingly. Nevertheless, there is a sense among soldiers that the CCP leadership has incurred a substantial debt to the PLA during the reform period and at some point the armed forces will call this in. That is, military modernization has taken a back seat to national economic development for long enough. One analyst aptly characterizes party-military relations in post-Deng China as a "bargaining" system in which the PLA must be consulted on all major policy issues.[19] Still, a remarkable and significant development is the establishment and adherence of the PLA to retirement norms established by the Party.[20]

Increasingly, military sentiment appears to question the here-to-fore sacrosanct party-army link. This takes the form of advocating the statification or nationalization [guojiahua] of the army.[21] The concern over the political reliability of the PLA that was raised in dramatic fashion in 1989 continues to be evident from periodic condemnations that appear in the official media of statification and "depoliticization" of the armed forces. Despite the massive political campaign launched in the aftermath of June 1989, Beijing was alarmed by the penetration of the military by Taiwanese intelligence and the Falun Gong sect in the late 1990s.[22] The ongoing vocal condemnation of Guojiahua in official newspapers and journals underscores the level of concern this appears to have in the CCP. [23]

#### JIANG'S ADDICTION AND QUEST

##### *(4) Penchant for Power*

Not to be overlooked is Jiang Zemin's great reluctance to relinquish power. The man clearly loves being the most powerful individual in China and the considerable perks that go with the job. He enjoys the limelight: hobnobbing with world leaders and being front page news. Of course, he wants everything to be scripted and designed to flatter and enhance his image. Thus, while he is usually calm and composed in the spotlight, he flew into a rage when a Hong Kong reporter posed an impertinent question at a November 2000 news conference in Beijing. Jiang relishes his role as China's lead of state, presiding over the ceremonies marking the historic returns of Hong Kong and Macao to Chinese sovereignty. And Jiang took enormous pride in organizing an impromptu meeting of the five permanent members of the United Nations Security Council during the Millennium summit in New York in 2000.

Jiang is rumored to be establishing the equivalent of the U.S. National Security Council. His intention would be to become head of this potentially powerful organ. If this were to come to pass, Jiang would continue to hold a formal position of considerable power even after he vacates the posts of head of the CCP and president of the PRC. To judge by reports of a recent conversation the Chinese leader had with Singapore's Lee Kwan Yew, complete retirement is the last thing on Jiang's mind![24]

##### *(5) Legacy of Greatness?*

But even Jiang recognizes that at 76 years of age his tenure as China's paramount is limited by his own mortality. He can count on perhaps another decade of reasonably good health. Undoubtedly, his foremost personal goals must be to secure his own place in history and ensure a smooth leadership transition. The two goals are clearly linked since a successful handover of power to political successor will serve to bolster his claim to greatness. Still, a fundamental question remains: what kind of legacy does Jiang want? Jiang is overshadowed by two larger than life figures: Mao Zedong and Deng Xiaoping. It is inevitable that he would like to be favorably compared to these giants. How can he be judged worthy? Essentially, there are two dimensions: length of leadership tenure and legacy of accomplishments. To compete in the first dimension, he must remain paramount leader for an extended period of time-preferably a decade or more. Mao ruled China for twenty-seven years, from the establishment of the PRC in 1949 until his death in 1976 (actually longer if one counts his tenure as leader of the communist movement prior to 1949). Deng ruled China for almost two decades, from 1978 until his death in early 1997. By contrast, Jiang can lay claim to being China's top leader for only five years.

The second dimension is the actual legacy of accomplishments. There are some strong hints as to how Jiang wishes to be remembered. While Mao is revered as the man who established the communist party-state and let the Chinese people "stand tall" and Deng is respected as the one who "let the Chinese people get rich," Jiang wants to be appreciated as the leader who will make China become "a strong country." Jiang's chief cheerleader within the PLA, General Zhang Wannian, said as much at the 15th Party Congress in 1997.<sup>[25]</sup> What are the specific goals Jiang might have in mind to show that China is strong? Economically, Jiang would like to see China considered as the largest economy in the world. In practical terms he will settle for China's admittance to the World Trade Organization in late 2001. In the arena of sports Jiang would like to preside over the 2008 Olympics. No Chinese city has yet to host an Olympics or any other major global sporting event of such magnitude. Jiang would also love to have a major achievement in space exploration on his watch—a manned space flight is possible before the end of the decade. On the military side, a Chinese aircraft carrier or an enlarged nuclear arsenal to match that of the United States hold great appeal but neither are likely to come about during Jiang's leadership tenure.

But, the greatest feather in Jiang's cap would be making progress on unification with Taiwan. Achieving actual unification or reaching a signed agreement setting out a timeline for unification would be the ideal legacy for Jiang. Indeed, the continued separation of Taiwan and the mainland underscores the significant limitations of China's power. At present, the PLA does not have the capability to seize Taiwan physically in an amphibious assault. While it could arguably impose a blockade and or use missiles to wear the island down and possibly force Taipei to capitulate, such strategies are risky and invite U.S. intervention.

Taiwan is both potentially Jiang's greatest achievement and his greatest dead-weight. Unification policy is traditionally the preserve of the paramount leader, and Jiang certainly recognizes that he must provide leadership in this area. Jiang clearly harbors ambitions to make progress on Taiwan; one need only recall his all-but-forgotten 1995 Spring Festival speech in which he made an eight-point proposal for moving forward on unification with Taiwan. The proposal received lukewarm response from Taipei and was quickly overshadowed by the furor that followed Lee Teng-hui's visit to the United States five months later. Moreover, after all the official hype surrounding the resumption of Chinese sovereignty over Hong Kong and Macao, progress on political union with Taiwan has been non-existent. Indeed, some would argue progress on unification with Taiwan was actually regressed since the mid-1990s. Ideally, unification with Taiwan would come peacefully—but it is difficult for Beijing to envision this happening given the current climate. Nevertheless, if Jiang could muster some imagination and boldness to go with his desperate desire for a legacy he just might have a fair shot at pulling off a spectacular negotiations coup to rocket him into the same orbit as Mao and Deng.

#### IMPLICATIONS FOR THE UNITED STATES

If Jiang Zemin does remain in a position of power for several more years, the continuity he would provide would likely be good news for US-China relations. Jiang would serve as a transitional figure who eventually fades from the scene. In this role he would help facilitate a smooth transition to a new generation of leadership. Jiang's continued presence on the political scene would also serve to reassure the PLA that its interests were both being understood and being taken into account at the highest echelons of China's civilian leadership. However, if Jiang refused to step aside and stubbornly clings to power, he would serve as a barrier to peaceful political change in communist China.

#### ENDNOTES

[1] This testimony draws heavily on Andrew Scobell, "Jiang Zemin and China's Leadership Transition: Legacies, Longevity, and Lines," in *China's Political Succession and Its Implications for the United States*, Asia Program Special Report No. 96 (Washington, DC: Woodrow Wilson International Center for Scholars June 2001), pp. 3-6.

[2] Andrew Scobell, "Military Coups in the People's Republic of China: Failure, Fabrication, or Fancy?," *Journal of Northeast Asian Studies* XIV:1 (Spring 1995), p. 38. In my view the arrest of the Gang of Four in 1976 qualifies as a successful coup while the attempted coup by the Lin family in 1971 rates as a coup attempt.

[3] See, for example, Ian Wilson and You Ji, "Leadership by Lines," *Problems of Communism* XXXIX:1 (January-February 1990), pp. 28-44.

[4] Myron Rush, *How Communist States Change Their Rulers* (Ithaca: Cornell University Press, 1974).

[5] On the arrest of the Gang of Four, see Scobell, "Military Coups in the People's Republic of China," pp. 35-37.

[6] This section draws heavily on Andrew Scobell, *Chinese Army Building in the Era of Jiang Zemin* Strategic Studies Institute Monograph (Carlisle Barracks, PA: U.S. Army War College, August 2000), pp. 16-18.

[7] David Shambaugh, "China's Commander-in-Chief: Jiang Zemin and the PLA," in C. Dennison Lane, Mark Weisenbloom, and Dimon Liu, eds., *Chinese Military Modernization*, (Washington, DC: AEI Press, 1996), pp. 209-245; Ellis Joffe, "The Military and China's New Politics: Trends and Counter-Trends," in James C. Mulvenon and Richard H. Yang, eds., *The People's Liberation Army in the Information Age*, (Santa Monica: RAND, 1999), pp. 22-47.

[8] Thomas J. Bickford, "The Business Operations of the Chinese People's Liberation Army," *Problems of Post-Communism* Vol 46, no. 6 (November/December 1999), p. 34.

[9] Andrew Scobell, *Going Out of Business: Divesting the Commercial Interests of Asia's Socialist Soldiers* Occasional Papers in Politics and Security No. 3 (Honolulu: East-West Center, January 2000), p. 5.

[10] Bruce Gilley, *Tiger on the Brink* (Berkeley and Los Angeles: University of California Press, 1998).

[11] However, this loyalty is not unconditional the way it was with Mao and Deng. Joffe, "The Military and China's New Politics," p. 46.

[12] David Shambaugh, "The Soldier and the State in China: The Political Work System in the People's Liberation Army," *The China Quarterly*, No. 127, September 1991, pp. 527-568.

[13] Cheng Hsiao-shih, *Party-Military Relations in the PRC and Taiwan: Paradoxes of Control* (Boulder: Westview Press, 1990).

[14] James C. Mulvenon, *The Professionalization of the Senior Chinese Officer Corps: Trends and Implications*, (Santa Monica: RAND, 1997), p. 73.

[15] On the Central Military Commission and the Ministry of National Defense, see the discussion in Jeremy Paltiel, "Civil-Military Relations in China: An Obstacle to Constitutionalism?" *Journal of Chinese Law*, Vol. 9, No. 1, (Spring 1995), pp. 48-50.

[16] See, for example, Paltiel, "Civil-Military Relations in China," p. 49; Michael D. Swaine, *The Role of the Chinese Military in National Security Policymaking* (Santa Monica: RAND, 1996), p. 44, footnote 16.

[17] The PRC constitution is widely available. For the National Defense Law, see "Law of the People's Republic of China on National Defense," adopted at the 5th Session of the Eighth National People's Congress on March 14, 1997 cited in FBIS-CHI-97-055.

[18] Ellis Joffe, "Concluding Comment: The Political Angle-New Phenomena in Party-Army Relations," in Larry Wortzel, ed., *The Chinese Armed Forces in the 21st Century*, Carlisle Barracks: Strategic Studies Institute, 1999, p. 327.

[19] James C. Mulvenon, "China: Conditional Compliance," in Muthiah Alagappa, ed., *Coercion and Governance: The Declining Political Role of the Military in Asia* (Stanford, CA: Stanford University Press, 2001).

[20] Mulvenon, *The Professionalization of the Senior Chinese Officer Corps*, chap. 2.

[21] Shambaugh, "China's Commander-in-Chief," pp. 219-20; Andrew Scobell, "After Deng, What: The Prospects for a Democratic Transition in China," *Problems of Post-Communism*, Vol. 44, No. 5, (September/October 1997), pp. 26-27.

[22] For details of the political campaign launched in the PLA since 1989, see Shambaugh, "The Soldier and the State in China," pp. 551-568. On the Taiwan spying case, see Reuters, "PLA Pay Frozen Amid Anger at Spying Case," *South China Morning Post*, September 15, 1999. On the Falun Gong case, see John Pomfret, "China Sect Penetrated Military and Police," *Washington Post*, August 7, 1999, p. A15 and Lorien Holland, "Breaking the Wheel," *Far Eastern Economic Review*, August 5, 1999, pp. 16-17.

[23] For a recent example, see Lt. Gen. Wen Zongren, "Shizhong jianchi dangdui jundui de juehui lingdao zhong shi luxing 'sange daibiao' de guanghui sixiang [Consistently uphold the Party's absolute leadership over the army and faithfully carry out the brilliant concept of the 'three represents'] *Zhongguo junshi kexue*, [Chinese military science] October 1, 2001, pp. 1-10.

[24] Willy Wo-Lap Lam, "China's Leaders Battle for a Place in History," September 17, 2002 from <http://asia.cnn.com> accessed September 17, 2002.

[25] Cited in Willy Wo-Lap Lam, *The Era of Jiang Zemin* (Singapore: Prentice Hall, 1999), p. 210.

Co-chairman DREYER. Thank you very much, Dr. Scobell. I was reminded when you asked the question how long Jiang Zemin's twilight would last of a Rand Corporation analyst for Eastern Europe who was telling me that he had written a book he called "Yugoslavia in the Twilight of Tito." And actually, Tito did not relinquish power for 12 more years. And so, let's hope it won't be that way with Jiang Zemin.

**Panel II: Discussion, Questions and Answers**

Questions? Commissioner Mulloy?

Commissioner MULLOY. Yes. In this article written by Cheng Li, who was one of our earlier panelists, he talked about the institutional methods, such as age limits for retirement, term limits, the law of avoidance, regional representation, intra-party elections, and regulations for reshuffling, all of these institutional things that have come in to try and govern how the leadership of China comes into power.

The question I have is who makes these rules in China that then bind the leadership? How do they come about? Who wants them, and how are they made, these so-called institutional restraints?

Dr. SCOBELL. Well, it's a very good question, and I don't claim to have the best answer. But these rules are the result of a process of negotiation and give and take amongst senior leaders in China who recognize that it's important to have an orderly institutionalized mechanism of succession at various levels and not have a bunch of old fuddy-duddies sitting around forever in positions of power.

At the same time, of course, these leaders don't want to be in a situation where they are abruptly forced out of power at a certain age. But along with that, if there is some guarantee that they can ensure that their own followers get appointed and promoted to positions, then they're a lot more comfortable retiring. And in fact, I think that that's what you see in a number of cases. For senior leaders, older leaders, a condition of their own retirement is that their subordinates get promoted and that people of their own generation of leaders also retire.

So you've got people cutting deals all the time. And to the degree that those sorts of standards that you just mentioned are adhered to, of course, further institutionalizes those things. But I think that the consensus of the previous panel was that such rules are being institutionalized in China, but there is still a long way to go.

Professor S. LI. I think we have been talking about institutional change or institutionalization a lot. We should be clear about what is institutionalization? What is institutional change? Well, the question is a very good question about who is making those rules, how the rules are made. I think if we know that, probably we don't really need this panel. The Chinese regime doesn't give us any clear rules of making "institutions."

Institutions are rules of the game, whereas an organization will take advantage of these rules and play the game. In China, precisely there are not much of the rules of the game. Everything is obscure and secretive.

Institutions could be bad institutions. There are examples of bad institutions, and so I would think China needs good institutional

change, such as democratization. In terms of rules, I think that the current China is not really better than the imperial China, the emperor determines which of his sons will be the next emperor. But the Communist Party doesn't even have that kind of rule.

When we talk about institutional change, there are two things we should pay attention to. One is the institution includes both the formal constraints like regulations and laws and the informal constraints. That's culture. You mentioned they have the regulation of avoidance, law of avoidance. But there are many exceptions.

Take the case of Li Keqiang, who is the governor of Henan. He's a Henan native. He works in his own hometown. So the informal constraints (legal culture) were not there to support the formal constraints (laws). Even in my own case, they are just constantly violating their own law because their culture is, "Oh, we have grabbed you, so you must be guilty." Their mentality, their mindset is still the old way.

Commissioner MULLOY. Here's what I need to know. The standing committee of Politburo, I think these are the top seven guys that kind of—and are these things that get imposed on them by someone else, or are these things that they agree that they want to impose on themselves and on others? These institutional restraints, or whatever we call them, do they have to be adopted by the standing committee of Politburo, or are they somehow imposed on the standing committee of the Politburo?

Professor S. LI. The question is who are the decision-makers? Who are the rule makers?

Commissioner MULLOY. Yes.

Professor S. LI. I would think that the rule makers in China are 12 people, the seven standing members of the Politburo and the other five octogenarians. I wouldn't think that somebody can impose on them. There is a kind of informal process among those 12 people who decide this.

Commissioner LEWIS. Who are the other five?

Professor S. LI. Let me see.

Commissioner LEWIS. The five members of the whole Politburo, rather than the standing committee of the Politburo. The whole Politburo I think is 12 people.

Chairman D'AMATO. Oh, I see.

Commissioner LEWIS. So the other five.

Chairman D'AMATO. Right. Right.

Co-chairman DREYER. No, it's 25, like 25.

Professor S. LI. The other five are the retired, but they're—

Commissioner WESSEL. Elders.

Professor S. LI. Senior leaders. Yes.

Commissioner WESSEL. Who are the elders?

Professor S. LI. Qiao Shi, Song Ping, Liu Huaqing, Wan Li, and Bo Yibo. Those are the kind of retired heavyweights. Those five and plus the other seven standing members are making rules and everything in China.

Dr. SCOBELL. Something that I talk about in my testimony is this concept of different lines of leadership. This concept is very important to understanding what may be about to happen and certainly what has happened in the past. What we might call the paramount leader—the Mao, the Deng, or the Jiang Zemin—is someone who,

over time, gradually steps back from the day-to-day conduct of business in a formal position in the “first line.” This individual steps back to the so-called “second line” of leadership, where they look over the first line of leadership’s shoulder and sort of step in or whisper in their ear at the appropriate time.

And I think that’s fairly well institutionalized. Now the question is what happens this leadership succession go around will have an important impact on whether that two-line system of leadership will continue or go by the wayside.

Co-chairman DREYER. Another caveat to the law of avoidance, to continue what Professor Li said, is the autonomous regions. And there, you typically have a native of that autonomous region as governor. There’s another question, of course, how much power these people have. But it is definitely not included in the law of avoidance.

Commissioner Wortzel?

Commissioner WORTZEL. I want to thank both of you for very, very clear, concise written and oral statements. They were great. Appreciate it.

Professor Li, one of the things that intrigued me that you said and wrote about it in your testimony is that Chinese leaders tend to view the United States government as fellow pragmatists who will conveniently discard principles.

That certainly didn’t happen when President Bush talked about Taiwan. The current national security strategy published last Friday—I don’t know if you have read it — but it’s got some fairly central things on China in there that are very heavily based on principle. So I guess then my question to you, even if you haven’t read the strategy, is do you think that the current Chinese leadership is as confident that the Bush administration will betray its own principles as they have been about other administrations? And what does that mean in terms of the way they behave in Sino-U.S. relations?

And then, for Dr. Scobell, you talked a great deal about Deng Xiaoping having picked Jiang Zenin as the new leader. My understanding is that Deng Xiaoping also picked Hu Jintao. Jiang Zemin didn’t have much choice in the matter and might prefer somebody else. But what does that say for Jiang’s continued influence and Hu Jintao’s status as he comes into power?

Thank you.

Professor S. LI. Well, thank you for the question. And the question to me is a very tough question. I don’t think I can really answer that to your satisfaction. I read some reviews of that strategic plan, but I just haven’t had time to read the whole text.

I think it’s time for the Chinese new leadership or the existing leader to realize this as I mentioned in my written testimony and I briefly mentioned here, that the political change is the key to the U.S.- China relations. We don’t have enough data to analyze or to do any systematic analysis of what they think about whether the U.S. government or the Bush administration will stand by or uphold our principles.

Co-chairman DREYER. Andrew, did you want to answer any of that?

Dr. SCOBELL. It's a good point to raise about who actually selected Hu.

Certainly, I agree with you. I don't think that Jiang Zemin was particularly enthusiastic about Hu Jintao, Hu is a compromise candidate. The senior leaders of Jiang's generation are cutting deals. "All right. I'll back your man for the top if you agree that my man will also get on the Politburo," albeit in a lesser position.

It's also true that Deng Xiaoping was not wildly enthusiastic about Jiang Zemin. But he felt in a bind after June 1989 and needed to come up with someone who would be acceptable to a wide spectrum of people —Jiang Zemin fit the bill. In the same way, Hu Jintao fits the bill because he's been the master of not annoying anyone, of going through the system and coming out with no egg on his face. Hu has handled some pretty tricky assignments. Although he did not distinguish himself, on the other hand, he did not take the fall for anything in particular.

Definitely the leadership system in China is evolving from rule by one man. Even though there is a paramount leader, over time the paramount leader's power has weakened significantly. So Jiang Zemin is much weaker than his two predecessors, and I think it will be very interesting to see how long he lasts on that second line of leadership. He may fade away, literally fade away into the twilight rather than staying right behind the so-called first line of leadership the way Deng Xiaoping did in the 1980s with first Hu Yaobang and then Zhao Ziyang.

So the jury is out, but I think you raise an important point.

Co-chairman DREYER. Commissioner D'Amato?

Chairman D'AMATO. Thank you, Madam Chairman.

I have a question for Professor Li. You've written a lot on management and economic reform, and I'd like to know if you have a view of the relationship between the provision of economic resources in the way of massive trade receipts, investment, transfer of technologies from the United States to China and its impact? How does it impact the question of the development of political reform and openness?

And the backdrop to this is the constant analysis we see of the huge amount of corruption that dominates the Chinese system. You have this article in Foreign Affairs by Pei Minxin, which says that corruption has stalled political reform substantially, that opportunities have been missed. Massive historic opportunities have been missed for openness because of the huge amount of corruption.

My question is, does the provision of economic resources at the level that we are now providing as a nation to China feed the corruption and stall economic reform? And in the absence of that, would you get more economic reform and openness?

Professor S. LI. Again, this is a very—

Chairman D'AMATO. A tough question, I know. But you have a feeling for that. As someone who's looked at the economic system and management, someone who might have a feeling for the impact of these things.

Professor S. LI. Okay. I think the macro background picture would be in China transitioning from a relation-based society into more of a rule-based society, both economically, legally, or politi-

cally. And this process puts China in a chaotic situation between rules and relations.

Of course, we would like to see more rules and less corruption in relations. I think your question can also be put like what is role of China joining the WTO with more international investments? I think there are a few schools of thought. The SOEs, state-owned enterprises, those managers, they are against WTO because that means their demise.

And some leftists will argue that the WTO will help core capitalists exploit the periphery of a Third World country like China. A third school would see this as an opportunity to change China's constitution, which I tend to agree. We should use the WTO as an opportunity to see if China can become more rule-based, more fair, and transparent.

American business or in general FDI's (foreign direct investments) in China, have an interesting role. Certainly the corruption will make their costs higher, and will hurt their business. So in the long run, of course, they want to see a more rule-based, clear system so that they can reduce their costs. But in the near term, if company A can bribe to get a lower tax rate, company B will be at a disadvantaged position. So company B will be forced to do the same.

So there's a competition, unfortunately, among all the business people to bribe the officials to get a better deal in order to get ahead of others. So I see two forces there. In the long run, of course, everybody wants to improve the legal institution. But they tend to want a free ride there and let somebody else push for the better rules. Of course, if there are more good players, the path can change and then collectively people can push for better rules.

But if there are too many people who really take advantage of bribing to lower their cost, then I see that corruption will not go away. It probably will get worse.

Chairman D'AMATO. It will get worse?

Professor S. LI. Get institutionalized. That's the kind of institution we don't want to see.

Co-chairman DREYER. Commissioner Robinson?

Commissioner ROBINSON. Thank you, Madam Chairman.

The difference between the panels concerning the destiny of Jiang I thought was really quite striking. I took away, at least, from the previous panel, certainly Professor Li, but I thought others as well, that Jiang's ability to successfully preserve his chairmanship of the Central Military Commission would be a fairly clear signal that a smooth transition process had been, at least to some extent, disrupted and represent a potentially serious challenge to China's leadership structure going forward.

Now, I don't know if I've correctly characterized that across the board. But I certainly came away with that impression. Dr. Scobell, on the other hand, describes Jiang hanging on perhaps for some years as net beneficial from the point of view of stability, continuity, and I think predictability.

Now I suppose it's the commission's task to determine which it is and more likely that it's some of both. But to advance that process, I was wondering, Dr. Scobell, if you could share with us some of the specific markers, milestones, or basis on which you think

that Jiang is going to be able to successfully hold on, the role that his efforts to recruit PLA generals and other officers may play were he to succeed in that undertaking.

And Professor Li, whether you have a take on that or agree with Dr. Scobell that, indeed, we may see somewhat of a surprise there, at least I think given the predictions of the previous panel?

Dr. SCOBELL. It's a good question you raise. One of the distinguishing characteristics of the new leadership lineup in China in the party is that, as was pointed out earlier, in that these people do not have significant military experience or military credentials. And this is very different to Mao's generation and Deng's generation. We don't have what was sometimes referred to as "dual-role elites," people who have had positions of power, authority and experience in both the civilian and the military sphere.

And so, we are entering unknown territory in a sense. It's not necessarily a bad thing that a leader doesn't have any military experience. There was discussion about that on the previous panel, too. But it does tend to make it a little more difficult, or potentially difficult. So Jiang Zemin can make a pretty good case that his staying on as chair of the Central Military Commission for a relatively brief period of time is a good thing.

But if he stays on too long, then that the consensus will be that this is not a good thing. How Jiang conducts himself during that interim period, if he continues to overshadow Hu Jintao, then that will not be a very good thing either. So it's a question of how Jiang conducts himself.

Professor S. LI. Dr. Scobell's point that if Jiang stays a little bit longer probably will add to the stability or predictability of the Chinese regime, I have some thought about stability in China's perspective. Since the 1989 massacre, the Chinese government has been saying, well, we need stability to develop, and become a kind of a popular belief among the Chinese. In terms of U.S.-China relations, we also need stability.

But I think the current issue is, as I mentioned in my written testimony, corruption is a bribe for the officials to carry out the dual-track reform, which is buy off those cadres so that they will be willing to push the reform a little bit.

And among the Chinese people, there was a school of thought saying China is better than Russia because Russia did not have this stability. But Russia now has a better stability. We can say that because the political and economic change already occurred in the early '90s, and now it's stabilized into a democracy and a free market, whereas China is still trying to get stability. But this temporary stability probably will be outweighed by the long-term instability because the former is brought by corruption.

So, I think China needs an event or even kind of crisis to trigger substantial political change or political reform for the longer-term stability.

Commissioner ROBINSON. Thank you. I would only argue that Russia is not there yet on either score. But that's just a small difference. Thanks.

Co-chairman DREYER. Commissioner Bryen?

Commissioner BRYEN. Thank you. I thank both of you for really intriguing testimony.

I want to come back to the question of stability and your point. What are the risks to a stable China going forward? Leadership succession is at one level. But in the overall structure of things, there's a lot of rumbling that we see—labor unrest, for example, violations of human rights. Fear seems almost out of proportion, fear of things like Falun Gong.

Do you sense that whoever the leaders are in the next decade that this is going to be a very shaky proposition, or do you see it as one that's predictable and will be stable? I'd like to get both of your reactions to that question.

Professor S. LI. Your question is about?

Commissioner BRYEN. I'm trying to understand are there forces at work in China, fundamental ones? One that comes to my mind most is wealth distribution or the failure to properly distribute wealth, which is more accurately, I think, the situation in China. And you know, with the growth of an economy, you also create expectations that get across the whole society, but people can't quite reach that.

And if you have a corrupt regime, one that is insensitive to process and to legal forums and that violates human rights like yours were violated, one can see a brewing crisis, at least that's my sense. But you're the expert, so I wanted to hear from you on that subject.

Professor S. LI. I think that we can only project or build some different scenarios. To me, the scenario that can lead to stability will be the constitutional change. The constitutional change can be if triggered by the WTO compliances. Or maybe there will be significant opposition voices that can be incorporated into the process of drafting a better constitutional constitution, rather than this unconstitutional constitution.

Another scenario would be the dual-track reform will go on. By dual-track reform, I mean that different players will follow different rules. The privileged cadre will follow one set of rules, whereas others will follow another set of rules. That can be even implemented with the WTO. The foreign companies can follow a set of rules that the nationals cannot enjoy, which is already happening. The foreign company can get into telecom, whereas private Chinese firms cannot. That has not been solved yet.

If that is prolonged, I think China is going to be increasingly unstable.

Commissioner BRYEN. You may want to look at the example of Iran, at some point, in the '70s. You were studying in the '70s in China as well, and you may want to see the parallel there, where foreigners got some benefits, significant benefits over the local population. But it didn't last very long, and it led to quite a revolution.

Dr. SCOBELL. I actually think the corruption is institutionalized. It's endemic in China, and I think the leaders of China are not stupid. They realize this is a big problem, if only in terms of perceptions, popular perceptions of this. And so, they are trying to deal with the problem. But I think they're destined to fail to resolve it because the measures that they need to take increase accountability that they're not willing to go that far.

It's interesting this year, the Chinese Academy of Social Sciences was tasked to undertake a study looking at how other countries

deal with official corruption. I think that tells you something about how concerned China's leaders are about the problem, in addition to the periodic crackdowns you have on official corruption. But the problem is not going to go away.

Along with the inevitable economic challenges that will continue to face China and the problems that these will lead to in terms of popular unrest, one thing China's leaders have got to make sure of in a situation like that the party controls the gun. And I don't think there's too much doubt that the party does control the gun, but I'm convinced that China's leaders are, shall we say, uneasy, unsettled, if not paranoid on this matter. They want to be 100 percent sure of this.

That is one card Jiang Zemin can play. Jiang can tell his colleagues, "you want to make sure that the party has the complete loyalty of the army, then it's a good idea to have me at least ride shotgun, so to speak, with Hu Jintao for a few years to make sure that this, indeed, happens." Indeed, if there is a crisis in the next year or so, I will wager some money that all eyes will not turn to Hu Jintao. They will turn to somebody else, and that someone else will probably be Jiang Zemin.

Therefore, it's particularly important that there be some mechanism, whether it's a person or something more institutionalized, whereby the party leaders can feel confident that in a crisis there will be no doubt that the army will obey orders to crack heads or worse, if need be.

Commissioner BRYEN. Thank you. I just think that in your studies that you may want to look at the parallel of Iran and see how that plays out in the Chinese context because I think there's a lot of similarity, and that leads to a kind of frightening future.

Thank you.

Co-chairman DREYER. You know, if there is a crisis, as you've posited, in the next year and all eyes do not turn to Hu Jintao, but turn to Jiang Zemin, I would argue two things. First of all, that that means that power has not been institutionalized and, second, that it's idle to talk about whether the party controls the gun if, in fact, the party is splitting.

So with that said, Commissioner Wessel?

Commissioner WESSEL. Let me follow on the line of questioning, if I can, because we've been talking about stability and predictability. We've talked about rampant corruption. We've talked about violation of human rights, not only generally, but specifically. The dramatic economic inequity that is occurring. We have not talked about proliferation of weapons, et cetera, et cetera.

How much interest do we have in stability and predictability if we have problems with existing policy? Do we want the transition to a new power structure that's simply going to continue that, raising the issue of whether someone retains power, whether they would exercise it forcibly? Does that mean that change that has been part of the guiding light you raised in your paper that many believe that economic growth will bring democracy? We haven't seen that yet in China. But how do we get change, if we want it?

The Bush administration appears to be following a preemptive strike doctrine of believing that where we have vital national interest at stake that we should take action. Should we be taking action

in any way, and I don't mean military strikes, but politically otherwise with China to try and derail the predictability and stability?

Professor S. LI. Well, I guess I'm not really a military or a foreign affairs strategist. But I can only answer from a kind of institutional change perspective. What's the stability we're looking at? We are looking at a stable regime that is systematically corrupting and systematically violating human rights.

Corruption can be only cured under democracy. Under democracy, there are still corruptions. But with a dictator, you have to have corruption to give the dictator the incentive to run the country better. Deng is better than Mao. Mao did not corrupt, but Mao's China was worse than Deng's. And Jiang Zemin's China is a lot more corrupt than Deng Xiaoping's, but Jiang Zemin's China's economic growth is better.

Look at Suharto's Indonesia or Marcos in the Philippines. You need to corrupt a little bit. That's really in the system of dictatorship. Dr. Scobell mentioned that China now is increasingly learning how to cure corruption from others. I just wrote an editorial in *The Wall Street Journal* evaluating their effort at learning from Hong Kong. How Hong Kong cured corruption.

And I evaluated all of Hong Kong's successful factors, and then I realized that from none of them China can learn. What Hong Kong did is separate the body that corrupts from the body that is supposed to clean corruption, namely the police. The body that is corrupt in China is the party, which is supposed to clean corruption. How can you separate that?

And also, the governor of Hong Kong has checks and balance back in England, which is a democracy. Where is the checks and balance in China? So all of the things put together just at the end of the current regime, corruption just cannot be cured. Heavy punishment can only raise the price of corruption.

It doesn't really cure the root cause of corruption, as I mentioned, the competing among officers, officials are corrupt because to get there, you have to pay. And secondly, companies bribe them to lower their costs. Those are the root causes of corruption.

Co-chairman DREYER. Commissioner Reinsch?

Commissioner REINSCH. Thanks. I'd like to come back to a term that Mr. Lam raised, legitimacy. I don't want to put words in all the panelists' mouths, both this panel and the previous one. But at least several of you implied, I think, that the party and therefore the current government doesn't have any or doesn't have very much legitimacy. Is that a fair statement?

Professor Li is nodding his head. Do you want to—

Dr. SCOBELL. I think that the current leadership does have legitimacy, but it's shifted. It's a different kind of legitimacy. I would say it's a performance-based legitimacy. And specifically, in terms of economic performance. So in other words, as long as China continues to enjoy reasonably good rates of economic growth, and most people see in their own daily lives that they're doing reasonably well, then by extension the leadership will garnish some support from that.

But it can be rather fleeting, obviously, because inevitably economies go through cycles. And China is bound to, if not have a crash, it's bound to have an economic downturn. And of course, in some

sense, we're seeing that now. So that begs the questions, of course, are there any other sources of legitimacy?

Well, it certainly isn't ideological anymore. But one other source of legitimacy, which many scholars have discussed, is nationalism. And so, appeals to nationalism, we see those more and more, and of arguably the ultimate nationalistic cause is that of unification with Taiwan.

So I'm not suggesting that China's leaders will manufacture a crisis in the Taiwan Strait simply to deflect criticism at home or waning legitimacy. But I think certainly that there are different ways in which you can wave the Taiwan flag or some other nationalistic issue to shore up what you see as your own shrinking legitimacy.

Commissioner REINSCH. I'm glad you said that, although that really preempts all of my other questions.

Co-chairman DREYER. You have 10 minutes left.

Commissioner REINSCH. I think you're right on target. Your comment about economics is well taken. I guess my perception is that each succeeding generation of leadership has been less legitimate than the one before it, as ideology and other emotional factors of the '40s and '50s and the people that were involved in them fade. What is left is what you said, economic growth. And as you pointed out, nobody has an unremittingly positive upward curve of growth over generations.

These things are cyclical, and one question may well be what happens in the inevitable downturn. I mean, it seems to me that the term—this may be semantics—but you're really talking about survivability and not legitimacy. The regime doesn't make itself legitimate by promoting growth. It allows people to acquiesce in it by virtue of the growth because they don't see anything better.

Dr. SCOBELL. Well, also not to belabor the point, but legitimacy is a relative concept in a sense. The way China's leaders have successfully done it to date is, well, okay, if we're not legitimate, then who is? I mean, if not us, then—

Commissioner REINSCH. Well, they've eliminated everybody else.

Dr. SCOBELL. Right. There is no alternative, and the best case that China's leaders can make is, well, okay, you want no more Communist Party, then the alternative is chaos.

Commissioner REINSCH. Yet if you look at the precedent in Eastern Europe and even Russia, what was so interesting about that was the speed with which they collapsed. It wasn't uniform in every case. But it was almost like a house of cards. You just push, and all of a sudden, they're sort of gone. And other people emerged that weren't there before because they were unitary states.

Do you see any possibility of that same kind of ploy in China?

Dr. SCOBELL. Well, certainly I think China's coercive apparatus, China's party-state, if you will, party-military-state might be a better way to put it, not to neglect the military, I think it's certainly strong. But it's probably a lot weaker than we think it is. I'm not predicting it's going to collapse tomorrow — I think under certain circumstances that the sort of constellation of forces, if you like, an internal crisis, a foreign policy crisis, and leadership divisions, I think it's quite possible that you could see some kind of collapse at some point in the future. But I think it's also possible, especially

if the economy continues to chug along, that you'll see the powers that be remain the powers that be.

Commissioner REINSCH. Professor Li, do you want to comment on that?

Professor S. LI. Well, I agree with you that legitimacy is almost completely gone from Marxist ideology. So I think that the fourth generation will have a lot less legitimacy than the previous one unless, as Dr. Scobell pointed out, maybe economic performance will give them some.

Well, the Chinese Communist Party has not been ruling based on that kind of legitimacy. It's based on the legitimacy of the ideology. If that's gone, you have to really turn to something else like a police state just to control. That, I think, is many people's fear that it will turn from a legitimacy-based rule into a lot more control-based.

Commissioner REINSCH. Thank you, Madam Chairman.

Co-chairman DREYER. And of course, it should be mentioned that nationalism is a two-edged sword. It's very dangerous. The leadership stirred it up and now has to keep it under control. Because if they perceive that their government is not doing enough to take back the Senkaku Islands, or whatever, then people become restive. And it's necessary to remember that a lot of these kids in the military have parents who have been thrown out of work by reforms. Commissioner Lewis?

Commissioner LEWIS. Professor Li, I would just like to ask you one preliminary question. When you said at the very beginning economic development doesn't necessarily lead to democracy, did you mean capitalism doesn't lead to economic development because economic development can occur in many ways? Did you mean that capitalism doesn't necessarily lead to democracy?

Professor S. LI. I should add a modification. Capitalism may not necessarily lead to democracy.

Commissioner LEWIS. Okay.

Professor S. LI. It can remain in authoritarianism for a while.

Commissioner LEWIS. I just wanted to clarify your use of the words "economic development."

Professor S. LI. Okay.

Commissioner LEWIS. You meant capitalism.

Professor S. LI. Right.

Commissioner LEWIS. Okay. Good.

Professor S. LI. I mean more than capitalism, but even under capitalism there are cases that economic development does not lead to democracy.

Commissioner LEWIS. Right. Thank you. I want to ask you another question in a moment.

Professor Scobell, David Shambaugh said that in terms of the party commanding the gun—I don't know if you saw the article in yesterday's New York Times, but he said he expects Mr. Jiang would be replaced by Mr. Hu as party chief and immediately after that as military chief. For the military commission to be headed by anybody but the party leader would make a mockery of the much-vaunted principle that the party commands the gun.

And I understand what you were saying was that it would be good for stability if Jiang Zemin stays on because he's respected by

the military, and Hu may not have the same influence with the military as he would. But yet, he's drawing a kind of a different conclusion that the person in command of the party apparatus would not be the person who is in charge of the military commission. Would you comment on that?

And also, the role of the military in China.

Dr. SCOBELL. I wouldn't put it in such stark terms. David Shambaugh is a friend of mine and a respected colleague who is very knowledgeable about China's military and civil-military relations. But you know, experts can disagree.

Commissioner LEWIS. Of course.

Dr. SCOBELL. And I think that he's dramatically overstated the case. However, as I said earlier it certainly could become a problem if Jiang doesn't know when to quit.

Commissioner LEWIS. What you're saying is that his staying on would be, contrary to what David Shambaugh is saying, would be the party still controls the gun?

Dr. SCOBELL. Yes, absolutely.

Commissioner LEWIS. Okay.

Dr. SCOBELL. How you operationalize the party controlling the gun is that it's the personal power of the paramount leader. That's the way it's been since 1949. In fact, even before 1949. And so, who is the paramount leader of China? Is it Hu? Well, at some point, hopefully it will be for a smooth succession to take place.

But up to a point, it will remain Jiang Zemin. And it will definitely remain Jiang Zemin for at least the next few months.

Commissioner LEWIS. If he stays on, the military would have played some role in his staying on. Do you see the military playing a greater role in country politics in the future? And if nationalism asserts itself, does this have any implications, A, for Taiwan and, B, for China's desire to be the center of the world and get us out of the Pacific?

Dr. SCOBELL. I think it's important to not think in terms of, well, the military can only exert its political influence in one way, in terms of some sort of political coup or diktat on whatever policy that they choose to give voice to. I think it's better to understand the military's influence as being somewhat more subtle and on a more perhaps mundane level, and it may be an implied, an understood pressure.

For example, I think Jiang Zemin has clearly understood this and I think Hu Jintao will understand that you need to keep giving the military money.

Commissioner LEWIS. Well, I guess the point—

Dr. SCOBELL. You have to do that. And so, if you don't, then you have to worry about the military not being behind you. To sum up, I don't think that the military takes as much of an activist role as some people would paint. But I do think they are a force to be reckoned with, and you have to take their interests into account. And any leader of China has to take their interests into account.

Commissioner LEWIS. I guess the point I'm making is all the generals in the United States who have spoken out on Iraq are expressing some kind of caution, and the non-generals are not expressing as much caution as the generals. Do you think the gen-

erals or the military in China would be more activist or they would be more cautionary?

Dr. SCOBELL. I've talked about it in some of my writings. I think I would characterize the PLA, especially on Taiwan, as hawkish.

Commissioner LEWIS. As?

Dr. SCOBELL. Hawkish, meaning that they are very hard-line. I mean, they think this is a critical issue, a core issue of China's national security. And so, they're not willing to back down. They're not going to compromise on Taiwan. But that doesn't mean that they are bellicose or belligerent. It doesn't mean that they are eager to go war next week or next month.

In fact, I would argue quite the opposite. They don't want to fight over Taiwan if they can help it because they know they're going to lose. They're probably going to lose. But that doesn't mean that if they are ordered to move, they will hesitate or disobey.

Quite to the contrary, I think China's military leaders are professional—I don't really like the term because it means different things to different people. It certainly means very different things in the Chinese context, I think. But China's military leaders will salute and obey the chain of command if they're given an order, especially if it's on a military operation at China's borders or beyond China's borders.

Commissioner LEWIS. Thank you. Professor Li, we haven't had many people who have come before us who have had the experiences in life that you've had. Would you feel comfortable in telling us why were you experiencing what you experienced? How long did you experience that? How were you confined? What were the conditions? And how were you released and why? And how were you informed?

Professor S. LI. Okay. Boy, that's probably a long story. Still, I don't really know why they did that. I think one of the reasons is that in state terror there's really no rules. There are no systematic rules you can follow. It has an element of randomness in that.

I was active in the '89 student movement when I was at Princeton, and even my family background makes me a good target. My father was a senior aide to Hu Yaobang. And my father was at Tiananmen Square demonstration in 1989. The government asked my father to go there to persuade students to leave because my father was respected by the students.

Of course, he failed. And afterwards, they arrested my father and put him under house arrest for 10 months, actually the same location where I was put. So my family background is really kind of a counterrevolutionary to them.

I can see one of the basic reasons is that there is no repercussions if they wrongly accuse someone. There are great incentives for the people in the security apparatus from the low end to the top to grab big fish, grab people and see if they can get something. If they don't, there's no harm for them.

So in this kind of a system without checks and balances, you will find that those things will happen. And when I was detained, even by their standards it's an illegal detention. They didn't show me any paper. And there was also another incidence —EP-3, don't know whether my case was influenced later by EP-3.

Co-chairman DREYER. What was the timeframe between your arrest and the EP3 incident? That was April 1, 2001, right, the EP-3?

Professor S. LI. Right. Yes.

Co-chairman DREYER. And your arrest was on?

Professor S. LI. I was a month earlier.

Commissioner LEWIS. How long were you confined?

Professor S. LI. Five months.

Commissioner LEWIS. Five months.

Professor S. LI. Yes. Well, immediately after I was detained and they knew that I was an American citizen and I had the right to see a U.S. consulate.

Commissioner LEWIS. Was this at the airport as you were leaving or while you were still there?

Professor S. LI. No, I was entering China, before I entered checkpoint gate. As soon as I showed them my passport, they arrested me. So technically, they arrested me before I entered China.

Commissioner LEWIS. And what was the reason they gave you?

Professor S. LI. At that time? They didn't give me any reason. They just said they had an order from Beijing. And then when the Beijing secret police came, they said, "You are endangering state security." And then they said, "We know that you're an American citizen, but it would be better for you not to talk to your consulate."

They did say that many times. And I was quite angry. I said, "Well, you are a state, and I am an individual. You are trying to persuade me to give up my right as a U.S. citizen. Why do you do that? If you have evidence, just show me the evidence. You don't have to really do this kind of low thing." But, well, they do all this.

Co-chairman DREYER. Did they ever give you an answer to that?

Professor S. LI. Well, they said, "don't cause any international attention, and then we can solve this quickly." They always say that. And I told them I have a class two days later, so I need to go back. They said, "Well, if you don't tell your government, you probably can go back very soon. Otherwise, it will be very messy."

Commissioner MULLOY. Did you tell your government?

Professor S. LI. I cannot talk to the consulate directly. I must ask the Chinese Secret Police to see my consulate.

Commissioner LEWIS. And did they comply?

Professor S. LI. They complied. I think they violated the hours. They should let me see American consulate within 72 hours, but it's maybe the fourth or fifth day.

Commissioner LEWIS. And then tell us about the confinement. Was it physically overbearing, or was it not?

Professor S. LI. Well, at the beginning, I was kept in the house under 24-hour surveillance. They have two police following me everywhere I walk. I really have nowhere to go. I have one room and one bathroom. Even when I go to the bathroom, they have to follow me, 24 hours.

This is, under the Chinese law, called "living under surveillance." My father also ended up in the same situation 12 years ago.

Commissioner LEWIS. During your period of the five months, did you have constant discussions with them about what they were accusing you of, or they just kind of ignored you?

Professor S. LI. Well, they will interrogate you fairly intensively for a while, and sometimes they ignore you. This is kind of like taking turns of intensive interrogation or just leave you alone.

Commissioner LEWIS. And why do you think they finally allowed you to leave, and how were you informed?

Professor S. LI. I think it's really the U.S. pressure. It's definitely — I don't want to say 100 percent because many other countries or international communities were extremely concerned and supporting me, like a couple thousand scholars signed letters. But it's really the U.S. pressure. I can tell very clearly they were extremely concerned about the U.S. reaction—if there is any country they still take seriously it's the United States.

Commissioner LEWIS. Were you fearful that you would not be able to leave?

Professor S. LI. At the beginning, yes, because really there are no rules. There are no laws. And I asked them to show me their security law because I am supposed to be violating security law, and they said, "Well, you're not allowed to read those."

Co-chairman DREYER. That's classified.

Commissioner LEWIS. Well, thank you both very much. Thank you for telling us about this period. Thank you for your information.

Co-chairman DREYER. The very patient commissioner.

Commissioner WESSEL. If I could just make one quick comment because Professor Li's predicament is not unique. We have our good friend Harry Wu in the audience here, who was subject to imprisonment for 19 years.

Commissioner LEWIS. He's sitting right behind you.

Commissioner WESSEL. Sitting behind. So we have others with similar and more horrendous stories as well, so our heart goes out to you, though.

Commissioner BECKER. Yes, thank you. And I appreciate your written comments as well as your verbal remarks, Professor Li. My comments really are directed to both of you. But your comments about democratization of China and some of the references intrigues me very much.

At the last panel, I had asked about this oppression of the trade union movement and whether this was likely to continue with the fourth generation of leaders that was coming about, particularly with the trade union leaders who are singled out—anybody who seems to either gravitate to the top to lead something or it's thrust upon them.

Many times, I think leadership of workers is thrust upon someone. But they're the ones that are singled out, and they don't have the resources that you had, and quite likely they wind up like brother Harry Wu, to the contrary, who did not have that kind of resource for many, many years, and people can virtually disappear from the scene.

But I guess what intrigues me about your written testimony and both of your comments, and virtually everybody's comments, is that very few people talk about the suppression of the trade union movement and their role in fostering democracy in China, if that's really our goal. Most often, we find that the seeds of democracy are sown by the free trade union movement, freedom of association,

and in the workplace. And democracy grows from the bottom up rather than looking for some magic formula or that the impossible person gets elected or selected to lead the country that just voluntarily turns to that. It doesn't happen.

And as an example of what I'm talking about is the free trade union movement in Europe and Eastern Europe and the role they played in bringing down Communism in Poland, and the Eastern European countries, and eventually Russia itself. The people struggled, the workers struggled for years trying to build a free trade union movement. And when they did, then as they said, all hell broke loose. And they did the impossible. And you brought democracy to those countries.

Your comparison to Germany—during those periods of Germany's strong growth, Hitler had eliminated himself of the burden of a free trade union movement. The leaders were incarcerated or killed or disappeared from the scene. And even in Taiwan, the movement of democracy to Taiwan, there was a free trade union movement in Taiwan that was advocating strongly for democracy within that country.

I guess all of that's by way of statement. But I guess really what I'm asking both of you, should the United States or should other free democratic countries advocate more strongly that the trade arrangements with China include some kind of mechanism to build a free trade union movement? This figured strongly in PNTR, and the United States backed down from insisting that this be included in the provisions of permanency on trade relations with China.

What role do you think this could play in bringing democracy to China, and should we, as a commission, be taking some kind of a position in that regard? That's my question.

Professor S. LI. I think that there are two issues. A broader issue should be about any organized movement, any organized activity, how they are viewed or what's their role in China. One thing, the Communist Party is very, very swift and brutal to put down any organized force. Take the case of Falun Gong. When they see tens of millions of followers, that's something they have to put down.

There are many cases during the Cultural Revolution. Youth, radical revolutionary youth, they follow Chairman Mao's lead and call to form Marxist study groups, and they were put in jail as counterrevolutionaries, and they couldn't understand. The point is the party does not want any organization, spontaneous organization, autonomous organization outside of the party, which has any potential to eventually become a threat, including trade unions.

I think those nongovernmental organizations or civil groups, they are vital in the role of China's democratization, which I think that's probably one of the hopes that eventually there will be a genuine constitutional reform in which different groups can have their views, can produce a real democratic, constitutional constitution.

Commissioner BECKER. Dr. Scobell?

Dr. SCOBELL. I think China's leaders are particularly concerned about worker unrest. You know, what they call the "Polish disease." And so, as Professor Li just pointed out, it's unlikely that they're going to give ground willingly on this front. And actually, if you're interested in some of the parallels or the similarities and the differences between the situation in China and the situation in

Poland in an earlier time, there's a very interesting article by Dr. Jeffrey Wasserstein in the September 2002 issue of *Current History* with an explicit comparison between Poland and China.

And the author concludes that the differences are significant enough that we're not going to see a Lech Walesa emerging in China in the immediate future. But the closest we have is Han Dongfang, an amazing man, who is, of course, currently based in Hong Kong. And I think we can certainly do all we can as Americans to ensure that he is allowed to continue to operate in Hong Kong. Along with the treatment of Falun Gong in Hong Kong, the status of Han is a key indicator of whether that "one country, two systems" policy is really working.

An autonomous worker movement will emerge when conditions are right, and that's not a pat way of saying let's not think about it today. We can help this along simply by continuing to trade with China, continuing to invest in China, continuing to encourage joint venture operations to go into China. The best working conditions in China today tend to be in joint ventures. It's those joint venture operations that show up the appalling conditions that exist elsewhere. That is the way, I think, to stimulate the kind of free trade movement that we would hope to see.

Commissioner BECKER. I guess I was focusing more on since trade is so vital to China and to the United States and to the other democracies in the world, do you believe that if the democracies that are trading with China, that if they insisted more, if they took a stronger position to create worker rights, to end the suppression, that this could bend the Chinese leaders? Do you think that this kind of pressure could bear fruit to build a free trade union movement in China? Do you think that this could possibly happen?

Dr. SCOBELL. You mean by—

Commissioner BECKER. The United States taking a stronger position with China and insisting, and France and Germany and England and the other trading partners, Japan. If they would put pressure on China, would China cave on that?

Professor S. LI. If all the Western countries can do it collectively, I think that would have an effect. But if it were only an individual country, the effect would be a lot more discounted.

Commissioner BECKER. He's got something. Go ahead.

Dr. SCOBELL. I think there will be an effect, but I think it will be limited because, as I said, China's leaders are so concerned about worker unrest getting out of hand. But I still think the U.S. should do this.

Commissioner LEWIS. I think the point George is making is that in Fascist Chile, labor unions were called Communist. In Communist East Europe, labor unions were called Fascist. So wherever the leadership is nondemocratic, they label the labor unions as something that's contrary to the system they have. Now, if our government is truly interested in having democracies in other countries that are not democratic, shouldn't we be negotiating for labor rights as well as for economic rights and intellectual property rights?

Dr. SCOBELL. Absolutely, but we also ought to encourage societal developments that naturally inevitably produce free trade unions and continue pressure for free labor trade movements that force

the government of China to respond to face realities. Because they're not going to concede much without pressure, even though rhetoric from abroad is very important. The pressure will have to come from society. Is there anything we can do to help that, I think, is a very good thing.

Co-chairman DREYER. Thank you both very much. This has been very enlightening, and we thank you so much for taking your time and coming to talk to us. And for Professor Li, I think two generations being put in detention is enough, and I hope you will warn your child about this.

Chairman D'AMATO. This concludes today's hearing.

[Whereupon, at 1:20 p.m., the hearing was adjourned.]

**STATUTORY MANDATE OF THE U.S.-CHINA ECONOMIC AND SECURITY  
REVIEW COMMISSION**

Pursuant to Public Law 108-7, Division P, enacted February 20, 2003

**RESPONSIBILITIES OF THE COMMISSION.**—The United States-China Commission shall focus, in lieu of any other areas of work or study, on the following:

**PROLIFERATION PRACTICES.**—The Commission shall analyze and assess the Chinese role in the proliferation of weapons of mass destruction and other weapons (including dual use technologies) to terrorist-sponsoring states, and suggest possible steps which the United States might take, including economic sanctions, to encourage the Chinese to stop such practices.

**ECONOMIC REFORMS AND UNITED STATES ECONOMIC TRANSFERS.**—The Commission shall analyze and assess the qualitative and quantitative nature of the shift of United States production activities to China, including the relocation of high-technology, manufacturing, and R&D facilities; the impact of these transfers on United States national security, including political influence by the Chinese Government over American firms, dependence of the United States national security industrial base on Chinese imports, the adequacy of United States export control laws, and the effect of these transfers on United States economic security, employment, and the standard of living of the American people; analyze China's national budget and assess China's fiscal strength to address internal instability problems and assess the likelihood of externalization of such problems.

**ENERGY.**—The Commission shall evaluate and assess how China's large and growing economy will impact upon world energy supplies and the role the United States can play, including joint R&D efforts and technological assistance, in influencing China's energy policy.

**UNITED STATES CAPITAL MARKETS.**—The Commission shall evaluate the extent of Chinese access to, and use of United States capital markets, and whether the existing disclosure and transparency rules are adequate to identify Chinese companies which are active in United States markets and are also engaged in proliferation activities or other activities harmful to United States security interests.

**CORPORATE REPORTING.**—The Commission shall assess United States trade and investment relationship with China, including the need for corporate reporting on United States investments in China and incentives that China may be offering to United States corporations to relocate production and R&D to China.

**REGIONAL ECONOMIC AND SECURITY IMPACTS.**—The Commission shall assess the extent of China’s “hollowing-out” of Asian manufacturing economies, and the impact on United States economic and security interests in the region; review the triangular economic and security relationship among the United States, Taipei and Beijing, including Beijing’s military modernization and force deployments aimed at Taipei, and the adequacy of United States executive branch coordination and consultation with Congress on United States arms sales and defense relationship with Taipei.

**UNITED STATES-CHINA BILATERAL PROGRAMS.**—The Commission shall assess science and technology programs to evaluate if the United States is developing an adequate coordinating mechanism with appropriate review by the intelligence community with Congress; assess the degree of non-compliance by China and [with] United States-China agreements on prison labor imports and intellectual property rights; evaluate United States enforcement policies; and recommend what new measures the United States Government might take to strengthen our laws and enforcement activities and to encourage compliance by the Chinese.

**WORLD TRADE ORGANIZATION COMPLIANCE.**—The Commission shall review China’s record of compliance to date with its accession agreement to the WTO, and explore what incentives and policy initiatives should be pursued to promote further compliance by China.

**MEDIA CONTROL.**—The Commission shall evaluate Chinese government efforts to influence and control perceptions of the United States and its policies through the internet, the Chinese print and electronic media, and Chinese internal propaganda.

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